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GOVERNOR'S COMMITTEE ON REORGANIZATION

AND ECONOMY

GENERAL STATE ORGANIZATION

(Report No. 58)

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Prepared by

Griffenhagen & Associates

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SCHEDULE I - LIST OF AGENCIES AND OFFICERS OF THE EXECUTIVE DEPARTMENT OF THE MONTANA STATE GOVERNMENT, SHOWING TYPES AND METHODS OF SELECTION OF THE MANAGING AUTHORITIES; AND INDICATING WHERE PRINCIPAL DISCUSSION OF THE AGENCY OCCURS IN THE BODY OF THIS REPORT 95

REPORT ON

GENERAL STATE ORGANIZATION

Introduction:

This report deals with the structure of the organization of the state government. In conformity with the general scope of the study with which this and other reports of this series deal, the emphasis is placed on the administrative agencies of the executive department.

The report reviews the existing plan of allocation of the functions of the state government as among the several departments and other agencies, and considers the broader administrative and operating relationships among them. On the basis of this review and consideration, it presents suggestions for a plan of reorganization with certain alternatives and possible variations. This plan has as its objective the simplification and clarification of the organization structure through reduction in the number of agencies; through more logical and orderly division of activities and assignment of responsibilities among agencies; through the concentration of work of the same general kind in the same department; and through better provision for the necessary functions of administrative control and service.

Presented separately, but as Exhibit A to this report, is a draft of the major provisions of an administrative code designed to put the proposed organization into effect.

The report, after disposing of a few matters relating to the legislative and judicial departments, analyzes the existing organization of the executive department in the light of basic principles of sound organization, and of problems in securing such organization. It then takes up, and discusses at length, proposals for revision of the present organization.

Three Basic Departments of the State Government:

Basis for Separation of Powers: A movement for separation of the powers of government took form in the early days of the United States and was imbedded in the federal constitution. This same separation has been included in the constitution of Montana as it has in those of other states and has come to be accepted as one of the fundamental principles of our American form of government.

This principle calls for clear-cut distinctions between legislative, judicial, and executive functions. In conformity with it, the state constitution provides that the powers of the state government be divided into "three distinct departments: The legislative, executive, and judicial, and no person or collection of persons charged with the exercise of powers properly belonging to one of these departments shall exercise any powers properly belonging to either of the others, except as in this constitution expressly directed or permitted."

Scope of Each Department: Only the executive department is specifically defined by the constitution, but the delegation of "the legislative authority" and "the judicial power" leaves no question as to the intent of the constitution.

Except for the legislative powers reserved to the people, "the legislative authority of the state shall be vested in a legislative assembly, consisting of a senate and house of representatives."

The judicial power is divided by the constitution among several agencies and is "vested in the senate sitting as a court of impeachment, in a supreme court, district courts, justices of the peace, and such other inferior courts as the legislative assembly may establish in any incorporated city or town."

While the constitutional definition of the executive department is the most specific of the three, it is also the least accurate. It states that: "The executive department shall consist of a governor, lieutenant governor, secretary of state, attorney general, state treasurer, state auditor and superintendent of public instruction." An exact, literal interpretation of this wording would exclude all other officers and employes from the executive department. Since there is no provision for the exercise of state powers except through one of the three basic departments, it must be assumed that the executive department is far more extensive than this definition would indicate.

The only logical assumption in this connection is that it includes all administrative agencies of the state government and, in fact, all agencies not in the legislative or judicial departments. As used in this report, therefore, the executive department means the establishment made up of all of the officers, boards, commissions, departments, institutions, divisions, bureaus, agencies, and employes engaged in the execution of the laws of the state at the state level. In other words, it is all of the state government, except those parts represented by legislative and judicial departments, but does not include any officers or employes of the political subdivisions of the state, such as counties.

Such discussion as this report contains of the legislative and judicial departments is to be found in the paragraphs that immediately follow, after which the report devotes itself to the executive department as it has just been broadly defined.

Legislative Department:

Composition of the Legislative Department: By the constitution, the legislative department clearly comprises the legislative assembly, made up of the senate and the house of representatives. Also included by statute are the employes of both houses who serve only during sessions.

No provision is now made for any continuing interim committees or other legislative agencies, but temporary committees of this kind may be created by any session to report to the next. It is not the intent of any comments in this report to suggest any change in the process by which such temporary bodies may be created. They usually have a special transient purpose and are a useful device for fulfilling that purpose.

Although the lieutenant governor and the state auditor, under the proposed plan of organization outlined in this report, are properly officers of the legislative department, the constitution specifically says that they are in the executive department. Their offices are, therefore, discussed as a part of the executive department.

Size of the Senate: Under the constitution the first legislative assembly was directed to divide the state into senatorial districts with the provision that there should be not more than one senator from each county. Nevertheless, by other provisions, each county was made a senatorial district and it was provided that any new county created should constitute a senatorial district and that no district should consist of more than one county.

At the time the constitution was adopted, there were 16 counties and the provision was, then, wholly reasonable and satisfactory. Since that time the number of counties, and senatorial districts, has increased to 56. With the large area of the state, there is no assurance that the number of counties will not be still further increased.

With 56 members the size of the senate is already becoming unwieldy and steps should be taken at least to prevent its growing any larger through the formation of additional counties. If the obstacles can be overcome it would be highly desirable to reduce its size to, say 30, 35, 40, or 45 members. By way of comparison, the cases of Texas and California whose problems of area are even greater than that of Montana, may be cited. Texas, with 11 times the population of Montana, some 60 percent greater area, and 254 counties, has only 31 state senators. California, with somewhat greater area, 12 times the population of Montana, and 58 counties, has only 40 senators. Of all the other westernstates only North Dakota, with 49, Washington, with 46, and South Dakota, with 45, have more than 40 senators.

It is recommended that the constitution be amended to eliminate the provisions calling for one senator from each county and substituting therefor provisions that the legislative assembly shall divide the state into not more than some fixed number of senatorial districts after each decennial census. The provision that limits the representation to not more than one senator from any one county should not be disturbed.

Size of the House of Representatives: There are no constitutional restrictions on the size of the house of representatives. However, the recent reduction in size (to 70 members) was a progressive step. Before any of this reduction is lost, the constitution should be amended to write in a limitation establishing permanently the maximum size of the house of representatives at approximately the present level.

Proposed Audit Committee: As is discussed in the report of this series on financial administration, it is proposed that there be established a permanent joint legislative committee, to be known as the "audit committee of the legislative assembly." The exact size and composition of this committee is not of major importance, but it should be no larger than is deemed essential.

It seems probable that the most effective results could be accomplished if there were no more than five members. The composition on this basis could be:

Two senators appointed by the lieutenant governor as president of the senate. It should be specified that one senator should be from one major party and one from the other, and that at least one senator should be a "holdover" member not up for reelection.

Three representatives appointed by the speaker of the house, with at least one from each of the two major political parties.

The chairmen could be selected in any one of three ways:

(a) By the members of the committee.

(b) By the speaker of the house in appointing the house members.

(c) By the lieutenant governor in appointing a "holdover" senator who would automatically be chairman.

The first method would seem to be preferable,but there are valid arguments for the other methods.

The committee should be appointed early in each session of the legislative assembly and should serve until the next session convened at which time it should file its report. Provision should be made for payment of a per diem fee and traveling expenses covering a reasonable number of meetings during the interim between sessions. The committee should have the power to conduct hearings, compel attendance of witnesses, pay witness fees, and punish for contempt. The purpose of this committee would be to provide continuing contact by the legislative assembly, through the state auditor, with the administration of the affairs of the state by the executive department, as defined in the constitution.

The committee's specific responsibilities should be:

To make a critical review of all financial reports of the state auditor as the proposed postauditor for the state, of the proposed department of finance, and of each other fiscal officer.

To investigate any irregularities and unsatisfactory conditions disclosed in such reports.

To conduct inquiries into the costs of government.

To ascertain and determine the justification for any departures in expenditures from the budget estimates.

To make investigations of prices, of rates of compensation, of the necessity for expenditures, and of the accounting, auditing, expenditure, and revenue-control procedures of the various agencies of the government of the state.

In all of its activities the state auditor should serve as the executive officer for the committee.

Judicial Department:

The judicial department of the state government was not included in the studies covered by this series of reports. However, one defect in the basic plan of organization established by the constitution is apparent. The clerk of the supreme court is elected by the electors of the state in the same manner as are the justices of the supreme court, for a term of six years.

The clerk of the court should, unquestionably, be an employe of the court amenable to the direction and supervision of the justices. This cannot be assured when the clerk is selected in the manner now provided by the constitution. It is recommended that the constitution be amended to provide for the appointment of the clerk by the supreme court and that he be made specifically responsible to the chief justice for the work assigned to him by law or by the court.

The justices of the supreme court have been assigned one duty which clearly violates the basic principle of separation of powers. This is the designation of the justices as a "supervisory board over the entire administration..." of certain funds. The duties involved are executive and not judicial. The fact that this duty is assigned by the constitution removes any question of its legality, but does not dissolve the objections to it. The plan of organization for the executive department discussed later in this report provides for all necessary safeguards over the administration of the funds which this provision sought to protect. It is, therefore, recommended that the justices be relieved of this extraordinary assignment by amendment of the constitution.

The chief justice and the associate justices of the supreme court, along with the secretary of state and the state auditor constitute by statute a board of trustees for the law library. This library is in reality the library of the supreme court, to which other persons have access. Neither the state auditor nor the secretary of state has any reason to be interested in, or involved in, its operation. If any state administrative officer were so interested, it should be the attorney general. However, any library adequate for the needs of the court will serve fully the needs of the attorney general. It is, therefore, recommended that the law library and its board of trustees be discontinued as organization units of the state government and that the court, or preferably the chief justice, be authorized to maintain the collection, add to it as occasion demands and funds available permit, and keep it open for use of the public. The court, or the chief justice, as the case may be should appoint any employes necessary and authorized to carry out this assignment.

The Executive Department; Description of the Existing Organization:

As has been previously indicated, the executive department is not clearly defined. According to the definition given to it for the purposes of this report, it comprises all of the agencies of the state government outside of the legislative and judicial departments. These agencies are made up in a multitude of ways and have varying degrees of independence. Even their number cannot readily be ascertained because it depends on what definition is given to an "agency," or "unit," or whatever other title is used as a basis for the count.

The organization is such as to defy accurate charting that would truthfully show the relationships among the various agencies.

The governor is the head of the executive department by virtue of a constitutional provision, as follows:

> "The supreme executive power of the state shall be vested in the governor, who shall see that the laws are faithfully executed."

However, the existing organization is so designed as to go far in nullifying rather than implementing this section of the constitution. This situation results from various devices that have been used deliberately, in establishing agencies to carry on administrative functions, to weaken the governor's influence over the agencies involved.

Some few of these devices have their origin in the constitution, but the most vicious of them are strictly of statutory origin. The principal devices having the effect referred to are those governing the selection of the heads of agencies. Because of the importance of this factor, a classification of methods of selection of officers is used in presenting a list of the existing agencies. Such a list appears as Schedule I attached to this report.

In this schedule the agencies are listed without any real attempt to say positively whether or not each should be regarded as a separate and independent agency. The classification used is as follows:

A. 7 Officers elected by the people.
B. 1 Board*, of three members, elected by the people.
C. 12 Agencies headed by individual officers appointed by the governor or having executive officers appointed by the governor.
D. 34 Boards* with all members appointed by the governor. (Including 10 boards as to which the governor is restricted, in making appointments, to members of, or persons nominated by, private organizations.)
E. 22 Boards* with one or more members appointed by the governor and one or more members serving ex-officio. (Including 3 boards as to which the governor is restricted, in making appointments, to members of, or persons nominated by, private organizations.)
F. 23 Ex-officio boards* (boards made up entirely of members serving ex-officio, or boards designated by separate names in secondary capacities)
G. 2 Boards with some ex-officio members and one or more officers of private organizations designated by law.
H. 1 Board with some members appointed by the governor and an officer of a private organization designated by law.
I. 4 Unclassified boards with members selected in different combinations of ways from those previously listed.
J. 21 Or more, individual heads or executive officers of agencies appointed by state boards or state officers other than the governor.
K. 9 Individual offices filled by other officers ex-officio.

* No distinction is drawn between boards and commissions. All are listed as boards.

The listing of agencies in support of this tabulation is presented in Schedule I appended to this report. Temporary agencies are not included in the tabulation above or in the schedule.

This foregoing list shows a total of 136 agencies and officers, but this involves considerable duplication of the agencies represented. The extent to which this duplication exists depends entirely upon the definition used for a unit, agency, or whatever term is designated in the count.

In making a minimum count, all the units listed in Items F, ex-officio boards; J, where the heads are subordinate to another state agency (many of them agencies under the board of education); and K, ex-officio officers, might be omitted in making the count, though this would exclude entirely several active state agencies with separate staffs. On this basis, however, there would be 83 agencies. The actual number of separate state agencies on the basis of a reasonable definition of "agency" lies somewhere between this figure of 83 and the other figure of 136. A round figure of 100 is probably as close as any.

The governor has full authority, sometimes subject to senate confirmation or other reasonable restrictions, in the appointment of heads or boards for about half of the agencies, including those under the jurisdiction of boards or officers he appoints. This does not mean that he can always exercise control because many of the boards are made up of members whose terms are longer than that of the governor, with only a fraction of the memberships up for appointment at any one time.

By comparison with the number of agencies shown in the foregoing listing, the proposed organization suggested later in this report as feasible of immediate adoption <u>without constitutional amendments</u> would have only the following agencies:

2	elected officers outside the "administrative service"
1	governor
1	executive cabinet
20	departments
6	appointed boards of departments
16	examining boards
7	ex-officio boards
53	total agencies without constitutional amendment

Even this plan would cut the number of agencies approximately in half. If all suggested changes <u>including constitutional amendments</u> can be adopted, not more than the following agencies would be required:

2	elected officers outside the "administrative service"
1	governor
1	executive cabinet
17	departments
6	appointed boards of departments
2	ex-officio boards
29	total agencies

Some further reductions than indicated even in the last tabulation would be possible. These are mentioned as possibilities in the text.

Some Principles to be Observed in Devising a Plan of Administrative Organization:

Need for a Sound Basis of Organization: The organization described in the preceding paragraphs of this report, and further explained by reference to Schedule I appended to this report, has grown up without the uniform application of any definite principles of organization. This is clearly evidenced by the numerous forms in which the governing heads of agencies have been created.

As is later noted, the constitution is responsible in but small degree for this situation. Nor has the increase in population been more than a minor factor in the changes that have taken place in the state government, although the population of the state has grown since the adoption of the constitution. In common with all other states, Montana has been subject to a tremendous expansion of the services of state government. In 1889 none of the states rendered extensive services. The legislative assembly and the courts were the major agencies; the executive department had few responsibilities. The local governments conducted most of the services that were rendered and the executive department was primarily a coordinating agency.

Shortly thereafter, the expansion of state services began and has continued ever since with increasing tempo. The demand for state services arose from widely varied causes. In many instances they resulted from the efforts of special interest groups to secure the cloak of state authority, and often of statewide financing, for activities of special benefit to them. In other cases, the movements were more altruistic. In nearly all cases, however, the sponsors sought primarily to provide for a particular service without reference to other state services or problems.

Members of the legislature were more concerned with whether the service should be undertaken, and, if so, who would pay the bill than with what apparently seemed to be the more abstract and remote questions of whether the form of organization proposed was the best available and whether that form was consistent with the organization for similar activities.

Changes have been made from time to time to correct obvious mistakes in assignments of functions, to consolidate related agencies, and to adjust defective legislation. But not even this process has uniformly followed any established principles of organization.

It is the purpose of this report to suggest a rearrangement of agencies of the state government and the adoption of the most appropriate form of organization for each. However, the accomplishments of any reorganization on that basis will be transitory in effect unless, at the same time certain basic principles are accepted to govern future legislation in this field. The demand for increased state services shows no indication of subsiding. Unless new services are fitted into some consistent plan, the same type of disjointed organization can be expected to grow up again.

While a great many principles could be listed, there are a few basic ones from which most of the others derive. These are listed here and discussed in order in subsequent paragraphs of this report.

The principles referred to are as follows:

The plan of organization should be simple and definite.

The organization should be integrated.

There should be a logical allocation of functions to organization units.

There should be provision for suitable managing authorities.

There should be an assurance of continuity of operating policy.

There should be provision for securing and retaining competent personnel.

There should be adequate safeguards against arbitrary action by administrative employes.

The foregoing listing is roughly in the order in which emphasis needs to be given to these principles as indicated by the extent to which they have been ignored in the present organization of the state government.

Need for Simple and Definite Organization: The structure of the organization should be simple, clear, and definite, which means that the main departments or branches should not be too numerous and that the functions of each should be clearly specified and responsibility for its management should be definitely fixed.

By contrast, the state's organization is now exceedingly complex. With respect to many functions it is difficult to determine who is responsible for action. In such cases the practical expedient has frequently been adopted of letting the board of examiners act upon the question involved under guise of dealing with its financial implications.

Such questions of jurisdiction, when they do arise, are disastrous to effective administration. Action on important matters may be delayed; each of the two or more agencies in whom some of the authority rests may hesitate to act, thinking the other may do so; or both may step in and a contest may result over which has jurisdiction. Specific cases of this result may not have become prominent, but an opportunity for them is ever present in such situations as, for example, that whereby responsibility for the various activities of the state in the regulation of the production and sale of milk products is divided among three agencies.

The complexity of the present organization can be illustrated not only by such examples as that just mentioned, but also by the multiple designations of some agencies. The members of the board of examiners sit in three different capacities, as do also the members of the board of railroad commissioners, and of the state water conservation board. This situation is so confusing and unnecessarily complex that even employes of these agencies get mixed up on which board is supposed to do which things.

Need for Integration: The organization should be unified and integrated. It should be so designed as to facilitate the coordination of its several activities, which means that there should be a central executive authority and facilities for promoting cooperative action among, and providing common services to, the several departments.

The "supreme executive power" is vested in the governor, but as to many of the functions of the state he is divested of this power, and practically all the powers of a chief executive, by provisions of law giving independent authority to boards, commissions, and other elective officers. Under such circumstances the governor is in no position to "see that the laws are faithfully executed." Public opinion holds him responsible, but as he does not have the authority necessary to enable him to carry out the responsibility placed upon him by public opinion, as well as by the express mandate of the constitution, he is placed in an impossible position.

While it is an exaggeration to say that the state government constitutes a single enterprise in the sense of carrying on only one line of endeavor, nevertheless it is a single unit of government, established under one constitutional document and with one law-making body, and it can never possibly reach a uniformly high level of effectiveness in all of its branches unless the branches are integrated or coordinated and administered under uniform policies and standards of operation, service, and output. Many of the existing agencies operate to all intents and purposes as they would if they constituted the service of a separate, unsupervised, unaided, and, except for an occasional audit, unchecked state.

Need for Logical Allocation of Functions: The allocation of functions and responsibilities should be on the principle of placing together all activities and operations that can most conveniently and economically be handled together because of similarity in character, in subject matter, and in the type of operating staff required.

In conformity with this principle one basis for assigning duties is to set up the departments along "functional" lines. But there are cases where the "function" does not serve as a criterion as well as does the type of operation and the kind of employe needed for the handling of the work. And there is no object in bringing together activities merely on the ground of common purpose where the operations carried on are so different that they do not lend themselves to the same kind of direction.

So far as practicable, each unit should be sufficiently large to make it possible to secure the benefits of the centralization of all work of one kind, or of similar kinds, in one place. This leads to the reduction of overhead for each unit of output to the lowest figure, the leveling of the daily, monthly, and seasonal loads, the combination of fractional employments, the elimination of lost or unproductive time, and a reduction in the amount of necessary equipment and standby facilities.

Related functions are now widely separated among different agencies, unrelated functions are placed together, and there is much overlapping. For example, the regulation of banks is placed in the same office with auditing of local and state government accounts to which it is unrelated, while two separate agencies divide the work of auditing state accounts. The commissioner of agriculture, labor, and industry, under various titles, is responsible for licensing real estate brokers and agents, enforcing labor laws, inspecting scales, and grading farm products. Other equally incongruous examples could be cited.

Need for Suitable Managing Authorities: Each department, and the organization as a whole, should be provided with a single managing authority or directing officer qualified for the administrative tasks involved and aided by adequate counsel and organized facilities to assist in supervision. When there is justification for the designation of a board or commission as the authority, provision should nevertheless be made for a single executive to direct the work of the unit subject to the policy decisions and rules of the board.

As indicated by the list in Schedule I appended to this report, there is wide diversity in the type of managing authority. Entirely too many straight administrative and executive responsibilities are assigned to boards. Boards in general are not well suited for executive action, and the least well adapted for this type of responsibility are ex-officio boards where the members are engrossed in other duties. Yet many such boards have been given administrative duties.

Without proper, qualified management, no enterprise or state agency can be expected to operate successfully. Yet this factor has been given little attention in the state organization.

The form of managing authority for state agencies is further discussed in other places in this report.

Need for Continuity of Operating Policy: There must be continuity of operating policy and management within the organization and its several departments.

If the gains and lessons of each month and year in perfecting the organization and the internal operating policies and procedures are not made cumulative, greatly excessive costs of government will result. There is a heavy investment in the staff of any going enterprise involved in the training and experience that it has secured and the lessons that it has learned from its failures and its successes. Upon the higher officials in particular depends the responsibility for carrying on from period to period. A high price is paid when adequate provision is not made for carrying over acquired knowledge and experience for future guidance and benefit.

History furnishes striking proof that the great gains that have been made in the progress of civilization have been realized, not through overturns of the established order and the sudden establishment of perfected forms overnight, but rather by continuous small improvements, the benefits of which have been held and added to from year to year and from generation to generation.

There is more recognition in Montana of the need for continuity than there is in many of the states. While few formal devices except some overlapping boards have been set up to assure continuity, the tradition and practice have been to retain trained personnel in certain important positions regardless of changing administrations. To insure the continuation and extension of this policy it would be desirable to establish some safeguards such as are suggested in the report of this series on personnel administration.

Need for Competent Personnel: The personnel of the organization obviously must be chosen on the basis of fitness for the work to be done, whether it is of supervisory, technical, or routine character.

The best plan of organization structure will merely provide the machinery through which the personal efforts of those who make up the service and give life to the organization can be given effect. Only through capable and diligent workers, properly directed, can any human enterprise be effectively and economically conducted. If a basis and method of selection are applied that will insure the appointment of the best qualified executives available for the various supervisory posts, the levels of compensation for those posts should be high enough to attract, hold, and reward men adequately trained and sufficiently capable to carry the responsibilities involved.

There is no evidence of widespread incompetency among the state's employes, but there is no formal safeguard to insure that competent employes will be retained or that new appointees will be qualified. Such formal provisions are suggested in the report of this series on personnel administration.

Need for Safeguards Against Arbitrary Action: Little need be said here about the need for safeguards against arbitrary action by administrative employes. The present organization, with its emphasis on board administration, is reasonably effective in providing such safeguards. The simulated fear of such arbitrary action is frequently used by opponents of efforts to secure an administrative organization that can more effectively and expeditiously carry out its responsibilities. This problem has been given thorough consideration in connection with the proposed organization and comprehensive provisions for safeguards have been included in the plan.

Some General Problems of Administrative Organization:

The Problem of Change: The necessity for building whatever new or revised plan of organization is adopted upon the foundations of the existing organization make an "overnight" transition to the new organization impracticable and raises a number of difficult problems. Some of these problems on which decisions have to be made, aside from such detailed questions as the allocation of individual functions, deserve brief discussion here.

Necessarily, any change can be expected to meet with some opposition, because there are always those who are so reluctant to give up anything to which they are accustomed for anything unfamiliar to their experience that they will simply not go into the merits of what is proposed. This type of "blind" opposition often can be met only by a stronger force of proponents.

Other problems can be solved by more logical means. Some of the more important of these problems relate the following subjects:

Constitutional provisions not in harmony with the desired organization.

Terms of incumbent officers.

Corporate powers of certain state agencies.

Form and selection of the managing authorities of state agencies.

Election of state administrative officers.

Ex-officio boards.

Necessity for federal approval of changes in certain departments.

Transfer of employes, records, and equipment.

Influence of temporary conditions on the permanent organization.

Each of these subjects is discussed in turn in the paragraphs that follow.

Effect of Constitutional Provisions on Organization: The constitution provides for a varied array of state officers and other agencies in the executive department. These may be listed as follows:

Elected officers:

Governor
Lieutenant governor
Attorney general
Secretary of state
State auditor
State treasurer
Superintendent of public instruction

Appointed administrative officers:

State examiner
Commissioner (and bureau) of agriculture, labor, and industry - permissive, not mandatory

Boards with at least some appointed members:

State board of equalization
State board of education

Ex-officio boards:

Board of examiners
Board of state prison commissioners
Board of pardons
State board of land commissioners
State depository board
Supervisory board (over investments)

It is interesting to note that, out of this long list, the only agencies whose functions are primarily those of rendering service to the public, rather than administering the business, finances, and properties of the state or serving other departments, are:

Secretary of state (in part)
Superintendent of public instruction
State examiner (statutory functions only)
Commissioner of agriculture, labor, and industry
State board of education
State board of prison commissioners
Board of pardons

Unless constitutional changes are to be made, all of the agencies established by the constitution must be continued, though in most instances the legislative assembly has wide authority to prescribe their duties. In only a few cases does the inability to make changes constitute a serious barrier to sound organization, since in most instances comparable agencies would have to be provided under any suitable plan of organization.

In the cases of the attorney general, the secretary of state, the state treasurer, and the superintendent of public instruction, the constitutional provisions for election make it impossible, without constitutional amendment, to secure the best possible organization. There is no real advantage from any administrative standpoint nor from the standpoint of insuring effective control over the state government by the electorate in the election of any of these officers. Except in the case of the superintendent of public instruction, however, the barrier raised to sound organization is not so great that it need cause any undue concern if it is deemed inadvisable to attempt constitutional amendments.

A somewhat more serious situation arises because of the constitutional provision requiring members of the board of equalization to devote their entire time to the duties of their offices. Under a sounder plan of organization this would be unnecessary and much of the salary cost could be saved. A constitutional amendment, as discussed in detail later, is needed in this connection.

In the discussion of the proposed organization later in this report, an organization plan is presented in summary form based on the assumption that all the constitutional amendments could be secured that are needed to remove provisions in any way interfering with the best possible organization. But it is clearly to be understood that the authors of this report recognize the difficulties involved in securing such amendments. The purpose here is to present the plan as a model toward which future legislation and constitutional amendments may be directed.

The plan described in detail later in this report is a modification of the model plan. In this proposed plan, which is presented as a suggested basis for legislation at the next session of the legislative assembly, an effort has been made to exclude all matters requiring constitutional amendments and to provide only for changes that can be made by statute. The subsequent steps necessary or desirable further to improve the organization through constitutional amendments are pointed out in each case.

Terms of Incumbent Officers: Even in cases where there is no constitutional question involved and changes can be made by statute, a problem will arise in many instances of the term of officers who have been appointed for definite terms and whose positions would be eliminated or subjected to material alteration by the suggested changes.

For example, the members of the board of railroad commissioners are elected for six-year terms. It might be considered to be unfair to them as individuals, even if no legal barrier existed, to effect any change that would result in their arbitrary removal before the expiration of their respective terms. Similar situations will be found in other cases.

Where this situation is encountered, three solutions, and several other modifications of these three, are possible. The most satisfactory of these solutions, which unfortunately is not applicable in all cases, is to specify in the statute making the change that the incumbent of a particular office at the time the statute goes into effect shall be designated to such other specific office as is most nearly comparable to the office he holds, for the remainder of his term. This would work perfectly in cases where an agency only is given a new name and assigned some additional functions. The chief administrative officer of the old agency could be designated to fill the position, by whatever title it is called, of head of the new agency. With some modifications this same solution can be used in other instances. But wherever it is used it should be provided that, upon the expiration of the term of the incumbent, or a vacancy arising from any other cause, the office should be filled in accordance with the new provisions for selection.

A second solution, which is less satisfactory, but which may be necessary in some instances, is the postponement of the effective date of legislation transferring the functions of an agency until the date of the expiration of the term of the head.

A third solution, which has often been used in other states, but which is to be avoided if possible in any case where remunerative offices are involved, is the abolition of any offices where the problem arises and the automatic dismissal thereby of the incumbents regardless of the terms for which they are serving. Such a solution is often attacked as a political move, rather than a sincere effort to improve the organization structure.

Corporate Powers of Certain State Agencies: The corporate form of organization in which some agencies of the state government have been organized presents a serious problem. A state agency created with corporate powers may usually acquire and dispose of property, contract debts, and sue and be sued in its own name without regard to any other authority except that given to it by law, and without regard for the functions and fields of activity of other state agencies. It, in fact, becomes so independent of the authority of the state and of the citizens that it may, and the chances are about even that it will, disregard their wishes.

The state water conservation board, the rural electrification authority, the state armory board, and, in varying degrees, other agencies have been given these powers. Where bonds have been issued by the agencies, their corporate status may have to be retained until the bonds are retired. But, in all cases where bonds are not outstanding, the corporate authority of these agencies should be repealed. It not only is one of the most serious barriers to the establishment of a simple and unified organization structure, but also is conducive to irresponsible action that may damage the state's credit and reputation.

The legality of bonds issued by these independent corporate agencies positively has been determined by the courts, but their objectionable features from the standpoint of the state are in no way decreased by their legality. The bonds referred to are specifically not general obligations of the state, but any defaults on them will, without a shadow of doubt, reflect unfavorably on the credit and good name of the state and on the market for its general obligation bonds.

The question of the state's credit is primarily a business question, but in the long run there is a more important objection to this corporate feature. Democratic government must be responsive to the will of the people. Any devices, such as that under discussion, which have as their purpose or effect the removal of agencies of the state government so far from the control of the people that their will can be ignored with impunity are undemocratic. To the average man the constitution reads rather clearly that the state cannot incur indebtedness beyond a nominal amount without a vote of the people. The soundness of the principle behind this restriction is not open to question. Any device, however satisfactory from a legalistic viewpoint, that lets that provision of the constitution stand but nullifies it breaks faith with the citizens of the state and should be abandoned.

Form and Selection of the Managing Authorities of State Agencies: The problem of the form, and method of selection, of the managing authorities of state agencies has already been mentioned. This problem has not had the attention it deserves by reason of its importance. There is no consistency evident in the form of agency head or in the methods of selection. And too great use has been made of boards under circumstances where boards cannot operate as effectively as could single executives.

It has been clearly demonstrated and is generally conceded that administrative functions cannot in the average case be exercised with continuing effectiveness by boards. Action on countless details, involving innumerable personal contacts and immediate decisions, rather than group judgment, is called for in the exercise of such functions. Doubts as to authority to act, unwillingness to assume responsibility, the need for consultation, explanation, and compromise - all these - slow up action. On the other hand, it is

desirable that certain policy-determining and quasi-judicial functions, as to which deliberation and an expression of group judgment are needed, be exercised by boards. The type of organization proposed in this report for each agency takes account of these distinctly different types of functions. Where a department has important policy-forming functions or extensive quasi-judicial powers, it is proposed that a board be available to exercise these functions. The powers, duties, and limitations of such boards are discussed in detail later in this report.

There has long been a movement on the part of groups primarily interested in particular activities, and frequently unconcerned about the problems of state administration as a whole, to secure an organization "removed from politics." All too frequently the devices used to accomplish this end succeed in vesting control in special interests which function just as objectionally as certain "political" agencies and are less apt to be responsive to the will of the people. Most of the devices utilized are mere expedients with no sound basis for the assumption that they will accomplish the desired results. Most of them violate the fundamental principles of good organization and management, and the improved conditions that sometimes result are as often as not attributable to the public demand for improved results, as evidenced by the pressure for a change in organization, as by the actual change that is made in the form of the managing authority.

One such device sometimes used is to place the control of the department in the hands of a board to represent a number of interests or points of view. This is not so serious if the board is required to appoint an administrative head of the department and is itself restricted to advisory, quasi-legislative, and quasi-judicial functions. There is, however, a strong tendency under this plan for the board and even its individual members, with or without statutory authority, to interfere in administrative details.

But even where the board leaves administrative matters to its executive officer, the plan has some grave disadvantages in that in many cases neither the governor nor any other representative of the electorate is in a position to exercise any control over the policies of the department. The evils of bureaucracy are likely to follow. One by-product of such bureaucracy is usually extravagance.

Too often the members of a board created to "remove a department from politics" are prone to introduce a special brand of political manipulation and considerations of special privilege in the administration of the department. At times these factors and the resulting unwholesome conditions and extravagances become more pronounced than they would be if the department were one of many under the control of a governor. Furthermore, the safeguards that are set up to "protect" the board from a governor make it all the more difficult to correct these conditions when they develop.

It is strange that it generally is not realized that if this type of organization were desirable for one department, it would be desirable for nearly all departments. Yet, if it were applied to all departments there would be, in effect, not one state government but many separate governments, each exercising a few limited functions, and each so far removed from the wishes of the people as to policy, that the controls of a democratic system of government would be lost almost entirely.

While the importance of accomplishing other purposes may justify the temporary removal of certain departments as far as possible from political control, at least the use of such devices should be restricted closely. Their temporary use may at times be justified but only to permit the building up of a tradition of good management that will be preserved when the temporary device is removed.

The plan of requiring the confirmation of the governor's appointments by the senate has been used to some extent in Montana. The extensiveness of use, and its effectiveness, vary widely from one state to another. In some states it operates as a purely perfunctory gesture, in others it seems to curb poor appointments by the governor, and in still others it has the reverse effect of giving state senators a political trading point with the governor and making good appointments difficult. No recommendation is made in this report with reference to its adoption or rejection although the authors see the plan as one answer to the argument and that the chief executive should not have too free a hand. There seems to be no consistent evidence to show whether its general use would be beneficial or detrimental.

There is another device that can be applied, if desired, to the selection of department heads in the case of a department to which a board is attached. In such case, the governor's selection would be limited to a list of candidates certified as qualified for the position by the board attached to the department. This is not recommended for general application but it is a useful compromise device if circumstances are such that there is strong pressure for appointment of a department head by the board instead of by the governor.

The device just described is entirely different from the device now used in the cases of several boards whereby the governor is restricted in his appointments to lists submitted by private organizations. This method of giving private organizations the statutory right to one or more memberships on official governmental bodies is repugnant to democratic principles. Such members are indeed unusual individuals if they act in the public interest when that interest is adverse to the interest of the members of the organization they represent. This is because they must necessarily feel that their mission is to represent the interests of the organization. Even the same persons appointed by the governor without such nomination would feel under far more obligation to act only in

the general public interest. It is recommended, without any reservations, that all statutory recognition of private organizations in connection with any matters of state organization be rescinded.

Ex-Officio Boards: In common with a number of the western states, and to a lesser degree, some states in other sections, Montana has made extensive use of boards with ex-officio members. While this device does serve as a means of forcing a governor to keep himself advised of the activities of various agencies headed by boards of which he is a member, it consumes an excessive amount of his time in accomplishing this worthy objective.

As to the other members of such boards, there is seldom even this advantage. They are selected for particular jobs. Under any sound plan of organization they should be fully occupied with such jobs. The diversion of their time and energies to other, frequently unrelated, matters can only result in that much neglect of the basic responsibilities of their original positions. The duties now assigned to ex-officio boards should be assigned directly to the agency with which their activities are associated most closely, and the boards should be eliminated.

There is possibly one exception that might be made in this connection. The board of canvassers, established by statute, reviews and certifies the election returns. Since this duty arises so infrequently, no particular purpose would be served by the elimination of the board. However, other equally satisfactory means are available for insuring the accuracy of the count and could be adopted if desired.

Federal Approval of Changes in Certain Departments: Under various federal legislation in recent years, the social security board and the children's bureau of the United States department of labor have seized control of many matters in the operation of certain state agencies receiving federal aid. Under penalty of withdrawal of aid, they require that matters of organization and procedure applicable to unemployment compensation, various forms of public assistance, and public health be submitted for approval.

These federal agencies never have seen fit to adopt clear, definite, or precise rules governing the matters over which they exercise control. Such rules as have been adopted are too vague for practical interpretation. In the absence of adequate rules, each change in existing organization or procedure must be submitted by the department head whose jurisdiction over the particular subject matter is recognized by the federal agency involved, for specific approval.

No really satisfactory solution of the problems this introduces can be offered. It is suggested that plans be decided upon tentatively, that bills be drafted, and that before such bills are introduced, those features on which federal approval is required be submitted for such approval. If this cannot be secured, such modifications as are necessary to meet federal objections will have to be made.

Another course would be to go ahead with legislation, but to include conditional clauses of such a character that any provisions on which federal approval is required and cannot be secured will not go into effect.

Transfers of Employes, Records, and Equipment: The reorganization suggested in this report would raise the problem of the disposition to be made of employes, records, and equipment of an agency that might be abolished by transfer of its functions. Its solution, however, is not difficult. All employes and property of such an agency should be transferred along with the activities on which they are employed. In cases of dispute, some one agency should be authorized specifically to decide any questions involved.

After the transfer is made, the employes would be employes of the new agency and subject to the authority of the department head in the same way as if they originally had been employed by that agency. If the transfers permitted reductions, these could be made at will by the department head under existing law.

Danger of Letting Temporary Conditions Control the Permanent Organization Structure: A number of tried and proved principles of organization are discussed in other sections of this report. They are principles generally accepted by authorities on the subject of organization for effective administration as guides that should determine the form that an organization should take. All too often, however, strict application of these principles, in any particular reorganization project, is violated because of considerations of expediency or other considerations of temporary and essentially transitory character.

It is recognized that there may be need on occasion for compromising with principles for the sake of expediency, as by making a different disposition of some office, board, and function, than strict application of the governing principles would dictate. If no such concession were made, the adoption of any effective plan at all might be made difficult, if not impossible, by opposition to one or more of its details. Combinations of minorities opposed to specific items in any plan of reorganization, might build up a majority opposed to any improvement at all.

But there is seldom a valid excuse for surrender to proposals for compromise with principle merely because of the personality and ability of an individual official who holds an existing office for the time being. It may very well be that, in a given case, a particularly strong and capable administrator will be found to have the situation well in hand with respect to administration of a diverse group of activities under his control, and will object to having any of them taken away from him in the interests of more effective organization at some future time. Or, an unusual case may be found in which a board of congenial or unsually capable men is administering effectively, for the time being, a group of activities that, in principle, should be under the control of a single executive. It admittedly is difficult to overcome the argument made in these cases that, since the activities are being conducted effectively, no change should be made that offers only prospects of theoretical advantages to be offset against the facts of satisfactory results at the moment.

But careful consideration will show the importance of following the guidance of principle. The good results from the personality of the present incumbent are but temporary; the form of organization is intended to endure for a long time. It should not be perpetuated as a defective arrangement merely because its defects are at the moment being largely overcome by the personal abilities of an office holder who may depart from the scene at any time. Moreover, a good plan will offset some of the damage a poor administrator can do and certainly will not hinder a good administrator.

Proposed Plan of Organization of Departments:

Types of Departments Proposed: In the plan of organization outlined later in this report, the unit of organization for the administration of state services would be a "department." As noted earlier, this use of the term "department" is not wholly consistent with the use of the same word for the designation of the three major branches of the state government. But its use is suggested in spite of the conflict to conform to accepted practice.

If there were no constitutional, traditional, political, or federal-agency obstacles to overcome, all the departments established logically would be made to conform to a single pattern. Such pattern would be exceedingly simple. Each department would be headed by a single executive officer who would be appointed by the governor and who would be responsible to him under the law for the administration of all functions assigned to the department. Such divisions or other subordinate units as might be necessary could be established, but neither the head of these or any other employes of the department would have any independent authority. Instead they would act only on behalf of the director, and in his name or that of the department. For ease of reference, this type of department will hereinafter be referred to as "Type A" department.

As further explained later, there would be provision for independent board action in quasi-legislative and quasi-judicial matters where they were involved in the operation of the department. There would be several such boards to deal with broad categories of subject matter, in most instances covered by more than on administrative department.

It would be entirely feasible to set up many of the departments in conformity with the foregoing plan, but some modifications and alterations will be necessary in several of them to meet practical difficulties.

A few departments, for the time being at least, will have to be of a different type in that they are headed by elected officers. They would represent a different type of department, referred to later as "Type B." Such departments should however conform as closely as possible, in all other respects except selection of the head, to the same specifications proposed for "Type A" departments.

In the case of the education department later discussed, an entirely different type of organization, called herein a "Type C" department, is suggested as about the only practical solution to the immediate problem, and probably to the long range problem as well. In this department the board of education would be the official head of the department and there would be two executive officers under the board: one in charge of the institutions of higher education; and one in charge of elementary and secondary education. The latter, furthermore, would have to be an elective officer until constitutional amendment could be adopted.

In the cases of several other departments, constitutional restrictions would necessitate individual adaptations of the "Type A" department, largely in the nature of increased authority for the boards. These adaptations are discussed in connection with the descriptions of the departments affected, but the group is referred to herein as "Type D."

Authority of Head of Department: The assignment of authority and responsibilities of the head of a "Type A" department should cover the following points with respect to the department he heads:

He should be subject to the control of the governor in conformity with the assignment of the "supreme executive power" to the governor by the constitution.

He should, subject to the foregoing limitation, be responsible for the management of the department and exercise all its functions through the staff of the department in carrying out the provisions of law with respect to such functions, except where there is a specific reservation of authority to a board of the department.

He should have authority, subject to the limitations of appropriations and allotments, and any law of general application, or applicable federal regulation relating to personnel matters, to establish positions within the department and make appointments thereto; to abolish positions; and to assign duties to, direct and control the work of, and transfer, promote, demote, remove, and otherwise change the status of, employes of the department.

He should have authority, subject to the approval of the governor, to determine the internal organization of the department, except as it specifically may be prescribed by law.

He should promulgate regulations to govern the conduct of the work of the department; and where they are called for he should promulgate rules, subject to approval by the appropriate board, in interpretation of laws for the enforcement of which the department is responsible.

He should have authority to administer oaths when required by law or when necessary or desirable in the course of the business of the department and, under like circumstances, to examine witnesses under oath with regard to any matter properly the subject of inquiry by the department.

Need for Boards: Much has been said earlier in this report about excessive use of boards in capacities for which they are poorly adapted. This does not mean that there is not a legitimate need and, in fact, an essential need for certain types of boards in the organization of the state government. But the fields in which such boards should function are sharply limited. As has been stated previously, a board is the best type of organization where deliberation is more important than prompt action. This is the case in the formulation of important policies, in the consideration of appeals where citizens are aggrieved by the actions of administrative employes, and in the investigation of administrative actions.

Certain activities of the state are of such import and have such influence over the rights, privileges, and actions of citizens as to call frequently for deliberative action in the formulation of policies and in hearing appeals.

Of course, citizens aggrieved by administrative actions have recourse to the courts, but the cost, formality, and delay of such a recourse restricts its use in many instances where the grievance is not of major concern. If situations are likely to arise frequently in connection with the operations of any department where appeals are sought by persons affected, some recourse short of the courts should be provided. This provision should be such as to permit a citizen to avail himself of it without the necessity of incurring legal fees or other costs, and under such circumstances

that the state can adjust the matter with a minimum expenditure of time and money. Of course, no such provision should preclude a subsequent appeal to the courts, but if suitable intermediate provision is made, only in rare instances will grievances be carried to the courts.

The proposed plan, therefore, provides for several boards to exercise quasi-legislative and quasi-judicial functions in the fields of state activity where there is need for such provision. The value of such boards lies as much in the deterrent effect they can be expected to have on arbitrary administration actions as in the correction of isolated cases of arbitrary action.

Composition of Boards: With reference to many of the appointive boards now existing in the state government, there are provisions of law designed to secure the appointment of members who are engaged in, or represent, the occupations or groups most likely to be affected by any regulation or activity undertaken by the agency with which such boards are connected.

Such provisions tend to overlook the principle that if the state government is to conform to the high ideals upon which the state constitution is predicated, the purpose of government regulation and government activity in general must be the protection and improvement of the welfare of the citizenry as a whole. Any boards engaged in policy formulation or in hearing appeals should be primarily representatives of the viewpoint of the general public and not of special interest groups who stand to benefit disproportionately by government activity. This does not mean that board members should be ignorant of, or unsympathetic to, the problems of special groups subject to state regulation. It means that where special private interests conflict with the public interest, the composition of any board operating in the name, or under the authority, of the state should be such that the public interest will be safeguarded.

With these factors in mind, the proposals with reference to boards attached to departments contemplate much smaller boards than many of those now in operation. They also give to most of the boards a much wider field of activity than would be feasible if the boards were to be regarded as representative of certain special interests in the restricted fields with which such interests are concerned.

Normally such boards should have only three members. In some instances as many as five members would not be objectionable, but would increase the expense without commensurate benefit. Board members should all be appointed by the governor, preferably for long terms - say six years - and the expirations of terms should be staggered to provide a maximum of continuity.

Membership on any board, except as otherwise expressly provided should be specified as incompatible with the holding of any other state office or employment.

Authority of Boards: The powers and authority of the boards proposed are not to be confused with those of the boards now so generally heading agencies of the state government. The present boards are mostly what are known as "administrative boards." The proposed boards are advisory, policy-determining, and appellate boards only, except for a few additional specific powers of individual boards in dealing with particular matters.

The basic difference is that with the present boards all of the authority of the agency is vested in, and exercised by, or under delegation from, the board, whereas, under the proposed plan, the authority of the boards would be limited to the specific responsibilities which are assigned to them and the main authority would be vested by law in an administrative officer as head of the department. It cannot be emphasized too strongly that these boards would have no authority except that specifically assigned to them. There would be no implied powers for such boards.

In the cases of at least some of the boards, there will have to be some special powers and duties assigned in dealing with the particular subject matter with which they are individually concerned. In other cases, some further restriction of the general powers contemplated for other boards will have to be applied. With these reservations, under the proposed plan the power and authority of each of the boards suggested and the rights of the head of the department should be as follows:

No board, or any of its members, should have any authority except when sitting in an official meeting with a quorum present.

No member of a board should have any authority, except that represented by his vote on any matter before the board, and except in the administration of oaths during a meeting, as later set forth.

No rules of a department, interpreting laws that the department is required to enforce or administer, should be effective unless and until approved by the board for that department if any board is provided.

The board should have no authority to initiate rules, or to amend rules presented for approval by the head of the department, without his consent, but it should have authority to reject such rules and thereby force amendments acceptable to it.

The board should have authority to hear and determine appeals made by parties at interest, from any acts done, or decisions made, by the head of the department, or under his authority, within such limits as might be prescribed in the case of any department.

The board should be required to determine the facts and make decisions in cases brought before it for hearing on the record or by the head of the department, in any matter involved in the conduct of the business of the department.

The decisions of the board on any of the matters in the two preceding items should be final, subject to all rights of action and judicial review provided by law.

The board should have power, on its own motion, subject to the financial limitations set forth below, to make such studies and investigations as it might deem necessary to the formulation of policies or to determining of the wisdom and efficacy of the policies, plans, and procedures of the department in effect within the scope of the functions assigned to the board.

The board should be authorized to report its findings and recommendations to the governor, to the head of the department, and to the legislative assembly, or to any of them, as it might see fit.

Neither the board, or any of its members, should have any power to prescribe or direct the conduct of any work of the department, nor the action of the head of the department or of any subordinate employe thereof in any matter or case.

The head of the department should have no authority or control over the board.

The head of the department to which a board is attached should be required to furnish necessary facilities for the board and to designate an employe of the department, subject to the approval of the board, to serve as clerk of the board as a part of his regular duties.

In connection with any hearing or investigation, any member of a board would be empowered to administer oaths.

Members of boards should be entitled to necessary traveling expenses in attending meetings and if authorized, as it should be, to a per diem fee while in attendance at such meetings, but all such traveling expenses and per diem fees would be conditional upon the availability of appropriations and allotments.

The board should normally secure all necessary staff, services, and facilities from the department and, within available funds, the head of the department should be expected to make such services available. Should he refuse to do so upon demand, the board should be authorized to seek a special allotment to provide such services for itself. In so doing, itshould follow the usual channels open to department heads.

Suggested Plans for the Reorganization of the Executive Department:

Basis of Plans Presented: In line with the principles outlined earlier in this report, and with a view to correcting defects in the organization structure of the executive department, two plans of reorganization are presented here.

The first plan is a "model" plan which outlines the arrangement that it would be desirable to adopt if it were possible to ignore all the constitutional and other difficulties in the way. It is intended for use only as a guide for future legislation and for constitutional amendments needed to clear the way, step by step, for its ultimate adoption. There are too many obstacles to permit its immediate adoption.

The "model" plan does not offer a practical solution to the immediate problem of securing, as early as possible, such improvements in organization as are feasible in the face of the obstacles that have to be overcome. Consequently, a modification of this plan is recommended for consideration at this time. This modified plan, which is also termed the "immediate" plan, takes account of the barriers that interfere with the adoption of the model plan. An effort has been made in this plan to devise practical alternatives of such a character that they can be adopted without constitutional amendments.

The modified or immediate plan is described and explained in detail, agency by agency, in the pages that follow. In connection with the description, the steps that must eventually be taken to bring the organization into conformity with the model plan are indicated.

It is recognized that, in any proposed plan, some of the functions of the administrative organization, for various reasons, cannot be allocated to any one department as against every possible alternative with such finality as to preclude successful challenge. In some cases there is little or no preponderance of the precedents and arguments for a particular allocation as against another allocation. In other cases tradition, prejudice, or peculiar local conditions preclude an allocation that would ordinarily be accepted as sound. In still other cases proposed changes are not feasible of immediate adoption under the constitution and alternatives must be resorted to if the main features of the plan as a whole are to be adopted without undue delay. In the detailed descriptions of proposed departments, allocations of functions that do not fall without question into any one department are so indicated, and alternative allocations are suggested.

A "Model" Plan for the Future Administrative Organization: Since eventually it would be desirable to transfer the offices of lieutenant governor and state auditor to the legislative department, as previously indicated, they are not included in the "model" plan presented here for the executive department. Under this plan there would be the following agencies in the executive department:

Governor (and office of the governor)

Executive cabinet

Departments: (17 in all)

Department of state
Department of law
Department of finance
Department of revenue
Department of commercial supervision
Department of conservation and development
Department of education
Department of highways
Department of labor
Department of liquor control
Department of livestock and dairying
Department of military affairs
Department of occupational standards
Department of public health
Department of public safety
Department of public service
Department of public welfare

Boards attached to departments:

Board of finance; attached to department of finance; serving also department of revenue

Board of planning and works; attached to department of conservation and development; serving also department of highways

Board of education; attached to department of education

Board of labor; attached to department of labor

Board of public service; attached to department of public service; serving also department of liquor control and department of livestock and dairying

Board of welfare and health; attached to department of public welfare; serving also department of public health and department of occupational standards

The only other permanent agencies in the executive department would be a pardon board and possibly some such agency as the board of canvassers. Under this or any other plan it would be expected that, if occasion arose, special temporary agencies outside of these departments might be created to provide for transient requirements. As an example of the type of agency referred to, the present Montana preparedness and advisory commission may be cited.

Under this plan all of the departments, except the department of education, which has previously been described as "Type C," should be of the type described earlier as "Type A." The boards, except the pardon board, would all be of the type previously described.

There is considerable room for variation in the exact scope of the responsibilities to be assigned to the several departments proposed and it would be possible to reduce the number of departments further by consolidations. Or, without serious divergence from the objectives sought, one or two of the departments suggested might each be divided into two departments. Furthermore, the names suggested for the departments hold no particular magic. They could be modified as desired. These matters are no more than details if the basic plan is adopted.

The suggested scope of these several departments will be apparent from the descriptions of similarly named departments in the modified plan.

An Immediate Plan of Administrative Organization: The plan outlined here and described in detail in the remainder of this report is intended as the plan upon which action should be sought at the next session of the legislative assembly. This provides for such modifications of the "model" plan as are necessary to permit its enactment by statute. Although called a plan, it is, in reality, not one plan but several, because alternatives are suggested as to a number of features. However, the order of presentation of the alternatives indicates what might be called the "preferred" choice out of the various choices suggested and these preferred choices make up the preferred plan.

Some name would be desirable by which all of the executive branches except the offices of lieutenant governor and state auditor could be designated. The term "administrative service" is suggested. As thus defined, the administrative service would be the composite establishment over which the governor would exercise "the supreme executive power" given to him by the constitution. This authority should extend to all agencies and officers in the administrative service, regardless of the method of selection.

The preferred plan of organization would provide for the following agencies in the executive department:

Reference Number*	Agency	Type of Department*
1	Lieutenant governor	-
2	Office of the state auditor	-
	Administrative service:	
3	Governor (and office of the governor)	-
4	Executive cabinet	-
	Departments: (20 in all)	
5	Department of state	B
6	Department of law	B
7	Department of the treasury	B
8	Department of finance	A
9	Department of revenue	D
10	Department of local government service	A
11	Department of commercial supervision	A
12	Department of conservation	D
13	Department of education	C
14	Department of highways	A
15	Department of labor	D
16	Department of liquor control	A
17	Department of livestock and dairying	A
18	Department of military affairs	A
19	Department of occupational standards	**
20	Department of public health	A
21	Department of public safety	A
22	Department of public service	A
23	Department of public welfare	D
24	Department of public works	A
	Appointed boards:	
9	Board of equalization	
13	State board of education	
15	Unemployment compensation commission	
22, 11, 16, 17	Board of public service	
23	Board of welfare and health	
24, 12, 14	Board of planning and works	
19	Miscellaneous examining boards	
	Ex-officio boards:	
7	State depository board	
7	Supervisory board (over investments)	
7, 8	Board of examiners	
12	State board of land commissioners	
23	Board of state prison commissioners	
25	Board of pardons	
25	Board of state canvassers	

*The reference numbers refer to the numbered sections that follow in which these agencies are discussed. The type of department refers to the descriptions previously given of various types of departments.

**Does not fall into any of the types described.

Where more than one reference number appears in the foregoing tabulation it indicates that a board is to serve more than one department.

In the numbered sections that follow each of the foregoing departments and other agencies is discussed in turn. The boards are discussed in connection with the departments to which they would be attached and with other departments they would serve.

Where the primary reasons for any particular suggested consolidation or change of organization are those stated earlier in this report, these reasons are not elaborated upon in the discussion of the proposed plan. Where other conditions or circumstances, peculiar to the particular change suggested, are of importance, they are mentioned. Thus in nearly every case one or more of the following reasons, discussed at length in the preceding parts of this report, are to be assumed in connection with each suggestion:

Reduction in the number of agencies

Adoption of the most suitable type of managing authority

Clarification of lines of authority and responsibility

Bringing together of activities requiring similar skills, or susceptible to interchange of staffs

Giving the governor authority commensurate with his responsibility.

1. Lieutenant Governor:

As previously noted, the office of the lieutenant governor is listed by the constitution as an office of the executive department. This is a faulty concept. The lieutenant governor as the presiding officer of the senate is clearly a legislative officer. Only when he takes the governor's place is he acting in the executive department and then he does so as acting governor, or by actually taking the office of governor. Under neither of the latter circumstances is he acting in his capacity of lieutenant governor. These are the only two functions the lieutenant governor has.

No change is specifically recommended as to the office of lieutenant governor, except its transfer to the legislative department, though some question might be raised as to the need for the office. Some 35 of the 48 states elect a lieutenant governor, but the others do not find the office necessary and, so far as is known, there is no strong sentiment in favor of creating such an office in the states where it does not exist.

The prevailing practice in most of the states that do not elect a lieutenant governor is for the senate to select its own president who succeeds to the office of governor in the absence, disability, or death of the governor. This exactly parallels the

procedure in Montana if both the governor and lieutenant governor are absent or otherwise unable to serve.

Consideration might well be given to the amendment of the constitution to do away with expensive and cumbersome procedure of electing a lieutenant governor to guard against the contingency that the office of governor will become vacant. This situation has arisen only once in the history of the state except for temporary absences of the governor. On that one occasion the governor resigned to accept appointment to the United States Senate. The subsequent death of the lieutenant governor, then serving as governor, caused the elevation of the president pro tem of the senate to the office of governor.

2. Office of the State Auditor:

Place of the State Auditor in the State Organization: As indicated earlier in this report, the office of the state auditor under the proposed plan properly belongs in the legislative department, but because of the constitutional provisions establishing the office, it must be treated as in the executive department. However, it is excluded from the "administrative service" defined earlier in this report. It would not be subject to the jurisdiction of the governor under the proposed organization.

Both the place of the state auditor in the proposed organization and his functions are discussed somewhat in detail in the report of this series dealing with the financial administration.

Outline of Plan as to Office of the State Auditor: In brief, the proposed plan may be outlined as follows:

Proposed Head:

State auditor, elected as provided by the constitution.

Proposed Functions:

To audit the accounts of all agencies and the general accounts of the state, but not those of local governments and local government offices except as to the accountability for money of the state.

To investigate the means provided for accounting for, controlling, and insuring the safe custody of all moneys and other property charged to or held in the custody of any agency.

To audit the statements of financial condition and operations of the state government; to examine the estimates of resources available for appropriation and the estimates of receipts, as prepared for inclusion in each biennial budget report; and to certify in writing the results of such audits and examinations with such comments as the auditor may deem necessary for the information and guidance of the legislative assembly.

To lay the facts in writing, without delay, before the governor, each member of the proposed audit committee of the legislative assembly, and the proposed director of finance, if at any time the office should discover any unauthorized, illegal, or otherwise unsafe handling or expenditure of state moneys, or other improper practice of financial administration, or evidence that any such handling, expenditure, or practice is contemplated; or, if during the conduct of any audit or investigation, it is obstructed in the performance of its duties.

To report the facts in writing to each member of the proposed audit committee of the legislative assembly and to request that such committee provide for and conduct a hearing in case the state auditor deems it necessary in connection with any audit or investigation to obtain the testimony of witnesses under oath.

To assist the proposed audit committee of the legislative assembly at hearings conducted by such committee and to cooperate with and assist the committee in preparing its report to the legislative assembly.

Proposed Transfers of Functions: The functions listed above would involve the transfer to the office of state auditor of responsibility for making postaudits of state accounts now assigned to the state accountant and the state examiner. In the latter case a constitutional amendment would be required to relieve the state examiner of responsibility for the audit of the accounts of the state treasurer and the supreme court clerk. Until such time as the constitution can be amended the state auditor's responsibilities for audits of these two offices should duplicate that of the state examiner.

Under the proposed assignment of functions to the state auditor, he should be relieved of all duties and responsibilities for the day to day conduct of the state's business. This would involve the transfer to other agencies, as specified in other parts of this report, of all functions and duties now assigned to the state auditor by existing statutes. This would include all ex-officio duties assigned to the state auditor and all ex-officio memberships on boards, except possibly the board of state canvassers. Constitutional amendments would be required to relieve the auditor of membership on the following boards:

State depository board
Board of pardons

Such amendments should be adopted, but the plan should not be delayed pending their adoption.

3. Governor:

No change is proposed in the office of governor as such. However, the proposed reductions in the number of departments and changes in their organization would permit a closer contact between

the governor, as the chief executive, and the various departments. Under the proposed plan, the governor would be relieved of all ex-officio memberships on boards and commissions, except possibly the board of state canvassers. Also, through the administrative council and the executive deputy, hereinafter described, he would be greatly aided both in the planning and the executing of administrative policies and in the supervision of state activities.

It is proposed that the "supreme executive power" assigned to the governor by the constitution be implemented by suitable legislative enactments clarifying the fact that no other legislation has the effect of curtailing this power.

4. Executive Cabinet:

Composition: The executive cabinet would be made up of the heads of all of the departments. Its chairman would be the governor and an officer known as the executive deputy would act as its secretary.

Comments and Statement of Functions: Responsibility for many of the affairs and problems of state government cannot be allocated clearly to any one department even under a simple plan of departmental organization that recognizes logical, functional divisions. Many questions of policy and administration involve the operations of several departments and others relate to the interests of them all and to the state as a whole. On those problems that relate to the work of more than one department there should be opportunity for discussion by all the department heads who are, or may be, concerned and for the planning of joint action in which all interests will be represented. The governor, as chief administrator, should have the advice of his principal aides - the heads of the state's major departments - on these problems that are of general, rather than departmental, concern.

The membership of the cabinet should include the head of each administrative department or, where the official head is a board, the executive officer. In the case of the proposed department of education both the superintendent of public instruction and the head of the greater university should be members. The governor should be the chairman.

The council should meet regularly to consider matters of interdepartment relations and general administrative policies and procedures, and such subjects as the governor may submit to it or as its members may raise.

Through brief but regular reports, rendered at the beginning of each council meeting, the several department heads should be kept informed with respect to the financial condition and financial problems of the state and thus be encouraged and enabled to take a broader viewpoint than that of their individual departments. They should also be given an opportunity to present to the council particular difficulties that they have to overcome and to raise

questions of relationships with other departments that call for adjustment in the interests of a smoother operation of the whole machinery of the state government. Each department head should have an opportunity to describe any difficulties that he is facing and also the manner in which the problems of his department relate to those of others and to the state government as a whole.

As closely related to such questions of coordination, the council should undertake to solve questions involving the allocation of responsibility for action in matters that do not relate clearly and specifically to any one agency, but that need attention. All too often, matters of this kind fall between two stools, as it were, and are neglected. The administrative council could set up standing committees or preferably changing sub-committees from time to time to deal with special questions. This would obviate the necessity for creating ex-officio boards and mixed commissions which once started are seldom discontinued.

The council should have a permanent employed secretary, not a member, who would serve as the cabinet's executive officer and also as an administrative assistant to the governor. The title "executive deputy" would be suitable for this position, which should be considered of rank equivalent to that of the head of a major department.

A serious problem of our form of government is the bridging of the gap between administrations when frequently there is almost a complete turnover in department heads. This difficulty is not so great in Montana as in many states, because the practice of dismissing all department heads of the previous administration does not prevail. Furthermore, the need for continuity in administration has been recognized and partly met through the retention over extended periods and through changing administrations of such officers as the state accountant, the clerk of the board of examiners, and the secretary to the governor. The last example is almost unique among the states. It has established a precedent that should be encouraged and fostered in every way possible.

Relying on the same type of precedent, the position of executive deputy should be permanent and changes should not be made with changes in the administration. Therein would lie much of its value. The executive deputy should in a measure bridge the gap between succeeding administrations, provide at least some degree of continuity in the general business policies and operating programs of the state, and render invaluable aid to an incoming governor and cabinet in acquainting them with past action in such matters and the reasons therefor and in informing them of the status of various projects. The office should be considered as administrative in character and as entirely outside the realm of political policy. The executive deputy should be governed by the policies of the political leaders in power and deal only with the processes involved in carrying them out. Should the office become involved in political controversies it would by this fact lose all the value that it might otherwise have. It could serve successfully only in connection with purely "business" and "operating" problems.

Any number of special business problems of the state are now badly neglected or assigned to officers who should be fully occupied with their regular duties. The executive deputy could well handle in person, or arrange for the proper care by others, of any such special questions and tasks, to the great advantage of the state. He could also take care of many unclassified items of state business that now find their way to the governor's office but that are of an entirely different character from the work that the secretarial staff of that office is equipped to handle.

5. Department of State:

Proposed Head:

Secretary of state, elected as provided by the constitution.

Proposed Functions:

Functions now assigned to:

Secretary of state

Except: Ex-officio board memberships assigned by statute.

State board of voting machine commissioners

Type of Department:

Type B

Proposed Transfers of Functions: This department would be a continuation of the office of the secretary of state under a more appropriate name. None of the proposed functions would require board action.

It is proposed that the functions of the state board of voting machine commissioners, which is an unimportant agency seldom called upon to meet, be transferred to the proposed department of state and that the board be discontinued. This board is established by statute and is just one more board with little to do.

As an optional transfer, the board of state canvassers might be abolished and its functions transferred to the proposed department of state. Safeguards similar to those offered by the action of the board could be provided through the requirement that the tabulation and certification be made in public at an announced time or in the presence of two or more of the elected officers and attested by them.

Method of Selection of the Secretary of State: The secretary of state serves ex officio on several boards. It is proposed elsewhere in this report that each of these boards, except the board of pardons either be abolished or that its composition be changed to eliminate all ex-officio memberships. Some of these boards are provided for by the constitution and will have to be continued until such time as the constitution can be amended.

Aside from the duties imposed upon the boards of which he is a member, the duties of the secretary of state are largely of a ministerial character. They involve little discretionary power and almost no responsibility for important matters of state policy. Election is an expensive and inefficient method of selection of administrative officers. Consequently, unless wide discretion in policy determination affecting major matters of state-wide concern is vested in an administrative officer, or unless the office is part of a system of checks and balances, there is no adequate justification for election as a means of filling the office. Since the office of secretary of state, as such, involves none of these important responsibilities, it is recommended that the constitution be amended to provide for filling the office by appointment of the governor.

Such a plan is not without precedent since the secretary of state is appointed by the governor in New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, and Texas.

6. Department of Law:

Proposed Head:

Attorney general, elected as provided by the constitution.

Proposed Functions:

Functions now assigned to:

Attorney general

Except: Enforcement duties with reference to certain legislation forbidding price discrimination.

Legal staffs of such other agencies as maintain their own legal staffs.

Type of Department:

Type B

Proposed Transfers of Functions: This department would be a continuation of the office of the attorney general under a more appropriate name. It is proposed elsewhere that other provision be made for the functions or membership of the numerous boards of which the attorney general is a member, ex officio. It is not necessary for the attorney general to be a member of these boards in order to give them legal advice.

The attorney general now has the responsibility for enforcement of certain legislation relating to price discrimination (RCM 10904 et seq.; RCM 4193.1 et seq.) which is closely related to work now carried on by the Montana trade commission. Except as to actual prosecution of court cases, the responsibility for this

enforcement should be merged with the work of the present trade commission in the proposed department of public service.

Several state agencies now employ their own legal staffs, with or without specific statutory authority. As is more fully discussed in the report of this series on the office of the attorney general, there is danger in having responsibility for giving legal advice dispersed among various agencies. All official legal services for state departments and agencies should be furnished directly by the attorney general. The necessary transfers to accomplish this should be made.

None of the functions of the proposed department would be such as to require board action.

Method of Selection of Attorney General: Under the provisions of the constitution, the attorney general is an elected officer. However, except as he may be called upon as a member of various boards to make decisions affecting matters of state policy, the attorney general's duties are administrative, rather than policy determining.

There are two distinct theories as to the purpose of the office of the attorney general. One of these theories holds that the attorney general should be independently elected as a legal "watchdog," primarily to see that other state officials comply with the law and to prosecute any digressions. The other holds that the attorney general should be primarily the legal adviser and general counsel for the various state officers. The latter theory seems to be the more valid and useful interpretation. Under it the attorney general should be appointed by the governor.

The strongest precedent for appointment of the attorney general as an aide to the chief executive is found in the status of the United States attorney general as an appointee of the president and a member of his cabinet. Several states also provide for appointment of the attorney general by the governor. It is recommended that the constitution be amended to provide for appointment instead of election of the attorney general.

7. Department of the Treasury:

Proposed Head:

State treasurer, elected as provided by the constitution.

Proposed Boards:

State depository board, as provided by the constitution.
Supervisory board (over investments)
Board of finance (i. e. board of examiners) in the approval of investments.

Proposed Functions:

Functions now assigned to:

State treasurer

Except: Ex-officio board memberships; stationery, printing, paper, fuel, light, etc., assigned by Article V, section 30, of the constitution; and such obsolete functions as receiving and preserving an inventory list of legislative property.

State depository board in so far as permissible under the constitution.

State board of land commissioners and department of state lands and investments, in so far as they relate to investment of public moneys.

The teachers' retirement system of the state of Montana, and the retirement board, thereof, in so far as they relate to investment of moneys of the retirement system.

Industrial accident board, in so far as they relate to the investment of moneys under the jurisdiction of the board.

All other agencies of the state government in so far as they relate to the custody, investment, safekeeping, or disbursement of moneys for which the state is responsible, or to the custody of investments.

Type of Department:

Type B

Proposed Transfers of Functions: The proposed department would be a continuation of the present office of the state treasurer with added duties in investment matters and also in the custody and disbursement of certain funds where exceptions have been made, under ill-advised legislation, placing custody in other agencies.

There should be but one investment agency for all state funds which are either the property of, or the responsibility of, the state. It is needless duplication for more than one agency to spend the time to keep informed as to the suitability of investments, yields, prevailing market trends, and other essential matters that must be taken into account in securing the maximum yield consistent with the security required.

While the technical work of investment should be handled by a single officer, there should be approval of all such investments by some deliberative body and it is recommended that this be proposed.

It is, therefore, suggested that all investment functions of other agencies be transferred to the proposed department of the treasury.

Boards Serving the Department: The state depository board is established by the constitution and given jurisdiction over the selection of state depositories. Until such time as the constitution can be amended to discontinue this board, it will have to serve to the extent specified in the constitution. However, such additional duties as are assigned to the board by statute should be transferred to the proposed department of the treasury. At such time as the constitution can be amended the responsibility for selection of depositories should be transferred to the proposed department of the treasury. In connection with such transfer, the proposed board of finance should be given authority to specify the policy of selection and all selections and all security posted should be subject to its approval.

The constitutional provision making the justices of the supreme court a supervisory board over investments is discussed in conjunction with the judicial department. Until such time as it can be abolished, it would continue to exercise supervision over investments, all of which would be made by the department of the treasury under the proposed plan of organization. Upon the amendment of the constitution to eliminate this board, the full responsibility for supervision of investments would automatically fall upon the board of finance if the statutory provisions suggested are enacted now.

The proposed board of finance, which until the constitution is amended would be the board of examiners, should be responsible for establishing the investment policies of the state and should approve all proposed investments made by the department of the treasury. This and matters in conjunction with state depositories would be the only activities of the department of the treasury calling for board action. With the discontinuation of the state depository board and the supervisory board over investments, the board of finance would be left as the one board serving this department.

Alternative Proposal Requiring Constitutional Amendments: If it seems feasible to amend the constitution to eliminate the office of treasurer as an elective office, it would be desirable to dispense entirely with the suggested department of the treasury and to assign its functions to the proposed department of revenue.

That department would collect substantially all state moneys and full safeguards would be provided to insure its deposit in the treasury. No loss of safety would result if the controls that would be required anyway were extended to cover the custody of such money and its disbursement on proper warrant. The consolidation of the treasury with the department of revenue would greatly simplify the handling of moneys. The investment functions, which it is proposed be transferred to the department of the treasury, could likewise be handled just as satisfactorily by the proposed department of revenue if other treasury functions were assigned to it.

Aside from tradition, there seems to be no particular reason for electing the state treasurer as a separate officer. Presumably, there was originally some thought that a separate elected officer would serve as part of a system of "checks and balances." But the treasurer has been given almost no discretionary powers and he has no occasion or facilities to question any warrant that comes to him for payment, provided it bears the proper signatures. Since the system of control and audit proposed in this report and the report of this series on financial administration would provide adequate safeguards, the continuation of the office of treasurer as a separate elected office is unnecessary.

8. Department of Finance:

Proposed Head:

Director of finance, appointed by the governor.

Proposed Board:

Board of finance, with the board of examiners serving in that capacity until such time as the constitution may be amended to eliminate the board of examiners in its present form.

Proposed Functions:

The proposed functions would include a number of functions not now assigned to, or carried out by any existing agency, and other functions now theoretically carried on by substantially all state agencies. Reference is made here to the reports of this series on financial administration and personnel administration for complete explanations of these. In summary, the proposed department would deal with the subjects of:

General management of the state's finances.
Budget making and budget control.
Pre-audit of expenditures and current audit of revenues and receipts.
Accounting and fiscal reporting.
Purchasing.
Property control.
Central office services for all departments to the extent needed.
Personnel administration.

To the extent that these functions are now being performed (except where by individual agencies for themselves only) they would be transferred from, and include the functions now exercised by, the following officers and agencies:

State accountant

Except: Post-audit

State auditor

Except: Those assigned to the auditor in his ex-officio capacities.

State purchasing department

Board of examiners to the extent assigned by statute

Except: Supervision and control of state institutions including the state tuberculosis sanitarium.

Furnishing board

State insurance commission

State auditor as commissioner of insurance, ex-officio, in so far as they relate to insurance carried by the state

Custodian of the capitol

Commissioner of agriculture, labor, and industry in the custody of the unused fair property

Merit system council

Type of Department:

Type A

Proposed Transfers of Functions: The proposed transfers of functions from the state accountant, state auditor, state purchasing department, and to some extent the board of examiners are explained fully in the report of this series on financial administration. The effect of this proposal on the functions of the board of examiners and the relationships of the board to the new department are discussed later.

The furnishing board, which operates in practice as the board of examiners, has functions in connection with quarters and equipment for state agencies. They should be transferred outright to the proposed department of finance.

The state insurance commission deals only with insurance carried by the state. This is a proper function of the proposed department of finance and should be transferred to it. The state auditor as commissioner of insurance, ex-officio, has certain limited duties by statute in connection with such insurance. These should also be transferred to the proposed department of finance.

plan. It would be in line with this assignment to transfer also the responsibility for care and maintenance of these quarters and other functions of the custodian of the capitol to the department. This is suggested as the preferred plan. An alternative would be to transfer to the department of finance only those functions of the custodian with reference to mail service and property control. If this is done, the remaining functions of the custodian should be transferred to the proposed department of public works.

The commissioner of agriculture, labor, and industry has been left with the custody of the state fair property which was formerly operated under the jurisdiction of that office. As surplus property, it should be placed under the jurisdiction of the department of finance for sale and necessary care pending such sale.

The merit system council is not established by law. As soon as the proposed personnel work can be brought to a standard acceptable to the federal authorities, the work of the council should be merged with that of the proposed department of finance.

Board of the Department: The board of examiners would be attached to and serve as the board for the department of finance. It could do this in the name of the board of examiners or as a board of finance. In addition to the duties of boards of departments as stated earlier in this report, the board would continue to exercise the powers and perform the duties assigned to it by the constitution.

Under the general grant of powers to boards of departments, the board would specifically approve rules of the department; pass upon appeals resulting from rejections of claims, from actions of the director in making allotments, or from actions on personnel matters; and might, if it is desired, be required to hold hearings on, and approve, the proposed budget before submission to the governor.

The board would serve also as the board for the proposed department of the treasury in connection with investments of state funds.

Additional Changes Requiring Constitutional Amendments: It is proposed, at such time as the constitution can be amended, that the board of examiners be discontinued and that an appointed board replace it as the board of finance. At such time, the constitutional assignment of functions to the board should be withdrawn leaving responsibility resting on the department of finance and not on the board for these duties.

It is suggested in connection with the proposed department of the treasury and the proposed department of revenue that the board of finance take over necessary board functions of the state depository board and the state board of equalization when the constitution can be amended to permit. This would result in the board of finance serving these two departments as well as the department of finance.

If constitutional requirements could be removed as to the state examiner, it would be desirable to merge the proposed department of local government service with either the department of finance or the department of revenue.

). Department of Revenue:

Proposed Head:

Director of revenue, to be chairman of the board of equalization appointed by the governor as provided in the constitution.

Proposed Board:

Board of equalization, as provided by the constitution.

Proposed Assignment of Functions:

Functions now assigned to:

Board of equalization, to the extent permissible under the constitution.

Secretary of state in the licensing of railroad ticket agents.

Oil conservation board in the collection of the oil producer's privilege and license tax.

All state agencies in the collection of moneys due the state and in the issuance of licenses, with the exceptions and qualifications stated below.

Type of Department:

Type D

Proposed Transfers of Functions: The proposed department of revenue would be a continuation of the organization now designated as the "board of equalization," with some additional functions and with a change in organization as discussed later.

Under the new organization, such of the functions of the board of equalization as are assigned by statute, should be transferred from the board to the proposed department, but, of course, the statutes implementing the provisions of the constitution which assign functions to the board should be left undisturbed unless constitutional amendments are adopted as later discussed.

The secretary of state is assigned the almost obsolete duty of licensing railroad ticket agents. This function should be transferred outright to the proposed department of revenue, or the statute repealed.

The oil conservation board collects an oil producer's privilege and license tax. Since the board of equalization collects oil producers license taxes from the same taxpayers, the responsibility for collection of both types of taxes should be transferred outright to the proposed department of revenue. Even if no general changes in organization are made, the consolidation of collection of these two taxes should be effected.

The outright transfer of the collection of certain other moneys might also be practicable, but because of various circumstances, it is suggested that these transfers be hedged with certain limitations to avoid possible complications that might not be foreseen until operations began under the new plan. It is, therefore, proposed that the department of revenue be given jurisdiction over the collection of all moneys due the state, but that provision be made for administrative action in "farming out" to the operating departments the collection of any individual types of revenues or receipts that such departments can collect more effectively or more cheaply. Such a plan would have the advantage of giving the department of revenue control over procedures in the collection of revenues to insure the maintenance of adequate safeguards.

The device by which it is suggested that this situation be met is the transfer to the proposed department of revenue of primary responsibility for the collection of all revenues and receipts due the state, but to authorize the department, by rule adopted under the plan outlined earlier in this report, to delegate to other departments such details of administration of any law providing for collection of any tax or other charge as can best be handled in connection with the operations of such other departments. As stated, any such delegation should be under the general control and supervision of the department of revenue.

In connection with the proposed transfer of the issuance of all licenses to the department of revenue, the same authority to delegate the work to other departments should be included. Also there should be a restriction that, whenever any license is issued in conjunction with regulatory activities of any department, the department of revenue should be forbidden to issue the license without the prior approval of the department responsible for regulation. Since most such licenses are renewable at a given time, this requirement could ordinarily be met by the certification of lists of existing licenses eligible for renewal.

If considered necessary, the licenses issued by the occupational examining boards and any other agencies dealing with specialized groups of licensees could be entirely excluded from the proposed transfer.

One of the primary objectives of the consolidation of the issuance of licenses in one agency is to help clear up the very confusing situation whereby a single licensee may have to secure several different licenses from different state agencies. The centralization of license issuance would only partly solve this problem. As an additional device to simplify the operation it is suggested that the department of revenue be authorized by statute to consolidate on one license certificate any separate licenses issued to the same licensee. This would not affect the financial structure, or in any way disrupt any arrangements whereby the cost of certain regulatory activities is offset by charges in connection with licenses. After this plan has been in effect for a time, it might be feasible actually to consolidate certain requirements for licenses on the basis of statistical analyses of the combinations customarily issued to

the same licensees. This should be undertaken as an entirely separate matter, however.

Under the proposed plan charges should be made for collection against any special funds to which license fees, or other revenues collected by the department of revenue accrue. Such transfers should be made, not as appropriations to the department of revenue, which would unduly complicate its financial transactions, but rather as transfers to the general fund to offset expenditures from that fund by the department of revenue or any other departments rendering services to the activities financed from the special fund.

Organization of the Department: The organization of the proposed department of revenue is directly affected by several sections of the constitution providing for the state board of equalization and its duties. The membership of the board is fixed by the constitution which further provides that "each member shall devote his entire time to the duties of the office." The board is required by the constitution to "adjust and equalize the valuation of taxable property," "supervise and review the acts of county assessors and county boards of equalization," and do other things necessary to secure fair, just and equitable valuations. Another section directs the board to assess railroad properties and apportion the assessments among the counties. The board is also authorized to levy a special tax on livestock. The constitution fortunately permits the assignment to the board, by law, of other duties "relating to taxation."

In accordance with the general recommendations as to the form of managing authority for departments, it is urged that provision be made for a single executive to head the department. Although it may be regarded as a makeshift arrangement to comply with the constitutional provisions, it is suggested that this be accomplished by amendment of the statutes to provide for naming of the chairman of the board by the governor and the designation of the chairman as director of revenue and head of the department.

The board would necessarily be continued in its present form, but the proposed plan contemplates that the board will have no administrative responsibilities except as to the duties set forth in the constitution. In matters other than those assigned by the constitution, the board would serve in the same capacity as the boards which it is proposed be attached to other departments. One of its most important duties in this respect would be to hear appeals on tax matters where a taxpayer was dissatisfied with the actions of administrative employes in assessing taxes or in taking steps to effect collection.

In order to permit the board to carry out the duties assigned by the constitution, all administrative employes engaged in responsible capacities in connection with those specific duties should be appointed by the chairman with the approval of the other board members. All other employes of the department should be appointed by the chairman without the necessity of such approval.

This plan would necessarily leave the two board members, other than the chairman, with only part of their time occupied. The remainder of such time might well be used in supervising the work of county assessors and attempting to improve the quality of assessments.

The proposed plan would seem to fall wholly within the intent of the constitution, since the board is required to "perform such other duties relating to taxation as may be prescribed by law." The only possible legal difficulty would seem to lie in the designation of the chairman of the board as "director of revenue." If this designation would seem to introduce any problem it could be omitted and the chairman of the board could be assigned the duties of head of the department without other designation as to title.

Proposals Involving Constitutional Amendments: At such time as amendment of the constitution is feasible, it is suggested that the state board of equalization be abolished as such and that such of its duties as require board action be transferred to the proposed board of finance. This would not be feasible unless the board of examiners is also abolished in accordance with the plan set forth elsewhere in this report for the establishment of an appointed board of finance.

When these steps are taken, the whole department of revenue should be headed by a director of revenue appointed by the governor. The board of finance would then have only the duties of hearing appeals, approving rules, and performing such other duties as are required of all boards.

10. Department of Local Government Service:

Proposed Head:

State examiner, appointed as provided by the constitution.

Proposed Functions:

Functions now assigned to:

State examiner, insofar as they relate to local governments, but not those assigned as superintendent of banks, ex officio, or those relating to audits of accounts of state agencies, except as provided by the constitution.

In addition, it is proposed that additional functions and powers be assigned with reference to supervision of local government finances and technical assistance to such local governments as set forth in the report of this series on financial administration.

Type of Department:

Type A

Proposed Transfers of Functions: This department would be a continuation of the office of the state examiner in so far as it is concerned with local governments. Enlarged responsibilities in this field are contemplated under recommendations in the report of this series on financial administration.

It is proposed that the functions of the state examiner with reference to the audit of the accounts of state agencies be transferred to the state auditor. Most of this transfer could be effected by statutory changes, but the constitution would have to be amended to complete the transfer with reference to the audit of the accounts of the state treasurer and of the supreme court clerk.

Under the proposed plan the designation of the state examiner as superintendent of banks would have to be repealed. It is suggested that the functions of the superintendent of banks be transferred to the proposed department of commercial supervision. No functions requiring board action would be included in the department.

Alternative Proposal Involving Constitutional Amendment: Careful consideration should be given to possibility of repealing the whole section of the constitution establishing the office of state examiner in lieu of amending it to eliminate the provisions for audit of the accounts of the state treasurer and the supreme court clerk. If this were done, it might be desirable to discontinue the suggested department of local government service as a separate department and to transfer its functions to either the proposed department of finance or the proposed department of revenue.

There is good argument for such a consolidation, and almost no valid, practical reason for continuing the separate department except the difficulty of amending the constitution. As an activity of the proposed department of finance, the work could be so conducted as to make use of the technical facilities and staff of that department in connection with the design and installation of budgeting, accounting, and purchasing procedures and systems for local governments. On the other hand, there would be about equal advantage in assigning this work to the proposed department of revenue, since that department would have supervision of county tax assessment and might advantageously extend that responsibility to tax collection and other fiscal matters.

11. Department of Commercial Supervision:

Proposed Head:

Director of commercial supervision, appointed by the governor.

Proposed Board:

Board of public service.

Proposed Functions:

Functions now assigned to:

State examiner as superintendent of banks, ex officio.

State auditor as investment commissioner, ex officio.

State auditor as commissioner of insurance, ex officio.

Except: Those functions relating to insurance carried by the state on its own property.

State fire marshal

Except: Those functions relating to the enforcement of laws governing the storage of explosives; and those functions relating to safety inspections of elevators in public buildings.

Commissioner of agriculture, labor, and industry as real estate commissioner, ex officio.

Commissioner of agriculture, labor, and industry in the regulation of the conduct of grain elevators, warehouses, and other establishments commercially engaged in the storage of commodities.

Commissioner of agriculture, labor, and industry as farm storage commissioner, ex officio (unless repealed).

State board of hail insurance.

Type of Department:

Type A

Proposed Transfers of Functions: The proposed department of commercial supervision would be a new department. Its functions would be to carry out the state's entire responsibility for the regulation of financial institutions and of business enterprises primarily financial in character. The only extension beyond this general scope would be in connection with the functions transferred from the state fire marshal and, in a measure, those of the state board of hail insurance. Some explanation may be necessary to show the ways in which some of the proposed functions fit into the scope indicated and each is discussed in turn in the paragraphs that follow. In spite of the imposing list of functions to be transferred, the department would be relatively small.

The functions of the superintendent of banks are now assigned to the state examiner and, in a measure, tend to overshadow his original functions as an auditor of local government accounts and of certain state accounts. Aside from the quirk of language that causes the term "examiner" to be used in connection with both

activities, there is relatively little in common between the two sets of functions. While bank examination does involve some elements of auditing, these are among the less technical problems of an auditor. Also a bank examiner has many specialized problems with which an auditor would not necessarily be familiar. A banker, who might be fully qualified to make bank examinations, ordinarily would not be qualified as an auditor of government accounts. The separation of these two unrelated functions of the state examiner would be highly desirable, particularly in view of the fact that other activities, as discussed later, are far more suitable for combining with the work of bank examination.

As is the case with bank examination, the duties of the state auditor as investment commissioner and as commissioner of insurance are unrelated to the regular duties of the office, either under the present assignment of such duties or under the assignment proposed in this report and in the report of this series on financial administration. Under the latter plan it is essential that the auditor be relieved of all duties in connection with the administration of state affairs, in order that he may be in a position to audit any transactions involved, as a completely disinterested official. The functions of investment commissioner and of commissioner of insurance are more closely related to each other and to the functions of superintendent of banks than they are to any other functions of the state government. Although it need by no means be the primary reason for a transfer, because of adequate practical rather than theoretical reasons, it should be said in passing that there is a valid question as to the constitutionality of the designation of the auditor as investment commissioner and commissioner of insurance.

The proposed transfers to the department of commercial supervision should not include those functions of the auditor as commissioner of insurance that relate exclusively to the insurance carried by the state on its own property. Elsewhere in this report it is recommended that these be transferred to the proposed department of finance.

It is suggested that most of the functions of the fire marshal, who is now a subordinate of the state auditor in his capacity of commissioner of insurance, be transferred, along with the other duties as commissioner of insurance, to the proposed department of commercial supervision. There is no preponderance of argument in favor of this particular allocation, but the association of fire prevention work with that of insurance regulation is common. An alternative assignment almost equally desirable would be to the proposed department of public safety.

In either case, the functions of the fire marshal so transferred should not include those with reference to the enforcement of laws governing the storage of explosives. It is recommended elsewhere in this report that these functions be transferred to the proposed department of labor, along with the industrial safety and mine inspection work of the industrial accident commission. Nor should the transfer to the proposed department of commercial supervision include the safety inspection of elevators, now a duty of the fire

marshal. This is a technical type of inspection for which a fire marshal cannot be expected to qualify. It is recommended elsewhere in this report that this work be transferred, in conjunction with the boiler inspection work of the industrial accident board, to the proposed department of labor.

The duties of the commissioner of agriculture, labor, and industry as real estate commissioner, ex officio, are in no way connected with the other responsibilities of that officer. They are closely related to the duties of the commissioner of insurance. Since many men, particularly in smaller communities, are engaged in both the insurance and real estate businesses, it is only logical and proper that the same state agency should be responsible for licensing and regulating both types of business. There is further reason for the suggested transfer in that the purpose of regulation of the real estate business is the same as the purpose of investment regulation, namely to prevent the perpetration of fraud through misrepresentation of the investment sold, which in one case is securities and in the other real estate.

The duties of the commissioner of agriculture in the regulation of grain elevators and warehouses and in his capacity as farm storage commissioner, ex officio, are closely related. The purpose of this regulation is to insure the validity and negotiability of warehouse receipts, grain elevator receipts, and other documents evidencing the storage of commodities. When properly protected, these receipts serve as the basis for credit and for the transfer of title. They are thus, primarily, instruments to facilitate financial transactions. Since this is the case, the most suitable assignment of the function of regulation is in connection with the regulation of other financial agencies. Incidentally, no use is being made of the farm storage act and the whole act might well be repealed instead of transferring responsibility for its administration.

The functions of the state board of hail insurance are slightly different from others suggested for inclusion in the department. The others are in the field of regulation of financial institutions; the state board of hail insurance operates such an institution - an insurance business. However, the work of the board is highly seasonal and there are long periods when it could close its office except for a few minor matters that call for attention. This is the type of activity that cannot be operated economically by a separate organization unit. There is not much choice in the departments to which it might be assigned. The department of commercial supervision is suggested as the first choice because it is to be presumed that the officers and employes of that department would be fully qualified to manage an enterprise of this character and some of them would necessarily have to be familiar with the insurance business.

Other alternative suggestions for transfer of the functions of the state board of hail insurance are to the proposed department of labor, or to whatever other agency the functions of the industrial accident board may be transferred. The idea of transferring such activities to the proposed department of labor will at first appear

incongruous because of the title of that department. Actually, however, the proposed department of labor would be in the insurance business on a large scale in carrying unemployment compensation insurance and industrial accident insurance. The addition of a small line of hail insurance would be in no way inappropriate. If the functions of the industrial accident board are not included in the proposed department of labor, those of the board of hail insurance might well be transferred to whatever agency is to operate the state's industrial accident insurance business.

Name of the Department: The suggested name of the department of commercial supervision is but one of many that might be selected. Some others that might be considered are:

Department of business regulation
Department of financial institutions
Department of commerce

Board of the Department: Only in connection with hail insurance would there be any need for a board to serve the department. For this very limited purpose it is suggested that the proposed board of public service be designated as the board of the department but with the restriction of the scope of its activities to such matters as call for board action in connection with that one service. If the alternative suggestion that industrial accident insurance be handled by the department is adopted, similar responsibilities should be delegated to the board with reference to it.

Suggested Internal Organization: The proposed department of commercial supervision would not have a large staff. It is, therefore, urged that no separate divisions be recognized within the department. Under the director, there should be a small clerical staff with one employe in charge; a single field staff of examiners, operating directly under the supervision of the director; and one employe assigned primarily to the duties now assigned to the fire marshal. There should be no separate organization units for banking, insurance, investments, real estate, etc.

Alternative Suggestions: Because the proposed department would be small, there would be some justification for setting up a similar organization, not as a department, but merely as a division in some other department. The most suitable would be the proposed department of public service. This alternative can, in fact, be regarded as slightly more desirable, but it is probable that it would meet with more opposition than the plan as first outlined here.

If any difficulty arises over inclusion of the functions of the industrial accident board in the proposed department of labor, they could be transferred to the proposed department of commercial supervision. If that were done, however, it might be preferable to separate the insurance work from the safety and accident inspection work and transfer only the insurance functions to the proposed department of commercial supervision. The inspection activities, under such a plan, could be transferred to whatever agency is made responsible for the labor activities now assigned to the department of agriculture, labor, and industry; or to the proposed department of public safety.

12. Department of Conservation:

Proposed Head:

Director of conservation, appointed by the governor.

Proposed Boards:

Board of planning and works.

State board of land commissioners, as provided in the constitution.

Proposed Functions:

Functions now assigned to:

State fish and game commission

Montana state board of forestry

Montana state park commission, state forester, and state board of land commissioners, to the extent assigned by statute

Except: Investment functions

Department (and commissioner) of state lands and investments

Except: Investment functions

Science commission

Montana grass conservation commission

Livestock commission, in the control of predatory animals

Type of Department:

Type D

Proposed Transfers of Functions: The proposed department of conservation would be a new department, combining the functions of a number of existing agencies. Departments with similar combinations of functions are found in a number of states.

The largest agency whose functions would be included in the proposed department is the state fish and game commission. This department would furnish all services connected with outdoor recreation in so far as the state is involved. The work of the fish and game commission is the most important state activity in this field. There are also extensive possibilities for coordination of certain work of forestry with the work of the fish and game commission. Both operate primarily in the same areas. The success of the fish

nd game program is dependent upon the preservation of forests, and eciprocal cooperation of game wardens in fire prevention and forest ardens in incidental enforcement of fish and game laws is important.

The Montana state board of forestry, the Montana state park ommission, and their executive officer, the state forester, must ecessarily be dealt with together in any reorganization. For the easons previously mentioned, their work properly belongs in the same epartment with that now assigned to the fish and game commission.

The state forester also serves as the executive officer of the state board of land commissioners in the administration of tate forest lands. This work would not be done so well and would e more expensive if it were separated from the other work of the tate forester. But the divided responsibilities of the state forester in reporting to three boards is a situation that should be corrected. Furthermore, the state board of land commissioners also supervises the work of the commissioner of state lands and investments in the administration of non-forested lands.

To add to the confusion, both the state forester and the commissioner of state lands and investments are appointed by the governor with the advice and consent of the senate. The state board of land commissioners is an ex-officio board; the Montana state park commission is an appointed board; and the Montana state board of forestry defies classification since its membership comprises the governor, and seven other members, theoretically appointed by the governor, but nominated or actually selected by eight private organizations, two state agencies, and a federal official. The state forester thus serves as a connecting link for a whole chain of agencies involving one of the most complex organization situations to be found in this or any other state government. It violates most of the organization principles stated earlier in this report.

As a means of simplifying the organization and of clarifying responsibility, it is suggested that the functions of all these agencies be transferred to the proposed department of conservation, with the exceptions noted below, and that a suitable administrative organization be set up within the department for their administration.

Not to be included in the foregoing transfer would be the investment functions of both the state board of land commissioners and the department of state lands and investments. These functions are unrelated to the management of lands which is the primary function of both agencies. The investment functions are recommended elsewhere in this report for transfer to the proposed department of the treasury and board of finance.

Because of the assignment of certain functions to the state board of land commissioners by the constitution, the foregoing transfer to the proposed department of conservation would have to be limited to statutory functions.

The science commission was created in 1939 with ex-officio members as follows: the presidents of all units of the University of Montana except Northern Montana College, the librarian of the historical society, and the state superintendent of public instruction. According to several of the members, it has never met. Its purpose was to recommend objects and locations of scientific, historic, or prehistoric interest for designation as state monuments; and to approve permits for archaeological excavation. Unless the act is repealed, the whole responsibility might be vested in the proposed department of conservation for administration in conjunction with state lands and any state park activities.

The Montana grass conservation commission is concerned with the organization of grazing districts for the use of lands of diverse ownership and public lands. The work is closely associated with the administration of state grazing lands and it is recommended that it be transferred to the proposed department of conservation. As an alternative, it might be transferred to the state college for administration by the extension service which has many related duties.

Predatory animal control work is carried on in the state largely under the direction of federal agencies. The state fish and game commission helps to finance this work, but the livestock commission is responsible for bounty payments and some other activities that are partly independent of the federal activities. While this work has as one of its objectives the protection of livestock, in its actual operation it is not related to the other work of the livestock commission. The same agency that is responsible for administration of the fish and game program should have charge of the predatory animal control work. It is, therefore, recommended that the responsibilities of the livestock commission for this work be transferred to the proposed department of conservation. The financing of the program would not need to be disturbed.

Boards Serving the Department: In all matters except those related to state lands, it is proposed that, wherever board action is required, the department be served by the proposed board of planning and works which would be attached to the proposed department of public works. This board, on policy matters, would insure action consistent with any state plans developed in such matters as parks, forest programs, game and fish preserves, and development of hunting and fishing areas. It would also handle such board matters as length of open seasons on various types of fish and game in each area.

The state board of land commissioners is created by the constitution and given "the direction, control, leasing and sale of the school lands of the state, and the lands granted or which may hereafter be granted for the support and benefit of the various state educational institutions, under such regulations and restrictions as may be prescribed by law." The constitution also requires the board to classify lands by type.

Pending amendment of the constitution, these functions would have to remain in the state board of land commissioners, but at least as much of the administrative responsibility in connection

erewith as is now delegated to the commissioner of state lands and vestments and the state forester, either by law or by the practice the board, could and should be assigned to the proposed department conservation. Any matters in connection with the administration state lands that require board action should be cleared through e state board of land commissioners so long as it continues to ist.

As soon as it is feasible, the constitution should be ended to eliminate the provisions establishing the state board of nd commissioners. When this is done, the proposed board of plan-ng and works should take over such of its functions as require ard action.

Internal Organization of the Department: While it prob-ly would not be desirable to specify the internal organization of e proposed department by law, it is suggested that divisions be t up as follows:

Division of records: For land records, license records, and all other clerical activities.
Division of fish and game.
Division of lands and forests: For the management and conservation of state lands, forests, and parks.

Alternative Proposal: There would be much to be said for he consolidation of the proposed department of conservation and the roposed department of public works into a single department which ight be called a department of conservation and development. Such consolidation would add water conservation to the other conserva-ion activities. In practice, water conservation involves too much ngineering to permit its inclusion in the department of conservation nless other engineering activities are also taken with it. Never-heless, forestry work is important to water conservation and water onservation is an important element in the fish program. Some en-ineering and considerable map drafting is required in conjunction ith the administration and sale of state lands.

3. Department of Education:

roposed Head:

State board of education, appointed by the governor as provided in the proposed constitutional amendment to be voted on in November 1942.

roposed Administrative Heads:

Division of public and special schools:

Superintendent of public instruction, elected as provided by the constitution, until such time as the constitution can be amended; thereafter, commissioner of education (or director of education) appointed by the board.

University of Montana:

President of the University of Montana, appointed by the board.

Proposed Functions:

The proposed functions to be assigned to the state board of education are those now assigned to:

State board of education

Except: As to its responsibilities with reference to the Montana state training school, and as to certain minor administrative matters.

The functions to be assigned to the division of public and special schools are those now assigned to:

Superintendent of public instruction

Bureau of vocational rehabilitation

State correspondence school

Teachers' retirement system of the State of Montana, and retirement board thereof

Except: Investment of funds

Historical society of Montana; historical and miscellaneous library; and the board of trustees thereof

Custodian of records of the Grand Army of the Republic and United Spanish War Veterans

State board of educational examiners

State library extension commission

State board of library examiners

Montana state commission for the blind

Montana state school for the deaf and blind, and the executive board thereof

Montana state industrial school, and the executive board thereof

State vocational school for girls, and the executive board thereof

State orphans' home, and the executive board thereof

State board of education, insofar as its duties require administrative action with reference to the work of the agencies listed above, except as specifically described below.

The functions to be assigned to the University of Montana are those now assigned to:

University of Montana, all of its units, and their various subdivisions, including

Montana State University
Montana State College
Montana experiment station
State extension service
Montana grain inspection laboratory
State entomologist
Montana School of Mines
Montana state bureau of mines and geology
Northern Montana College
Montana State Normal College
Eastern Montana State Normal School
Executive board of each of the units of the University of Montana

State soil conservation committee

Montana agricultural conservation board (unless repealed)

Commissioner of agriculture, labor, and industry, insofar as they relate to encouragement and promotion of agriculture, agricultural statistics and market news, farmers' organizations, grading and marketing of farm products, control of commercial fertilizer, and other agricultural activities

Except: Elevator and warehouse examinations, control of dairy and poultry products, labor activities, and ex officio duties.

Type of Department:

Type C

State Board of Education: Because of various factors, including the constitutional provisions, the traditions in the field of education, and the importance of insuring continuity of educational policies, the plan of organization proposed for the department of education is different from that proposed for other departments. Under the proposed plan the board would be officially the head of the department, but would operate through administrative heads of two units within the department who would serve as executive officers for the board in their respective fields.

It is highly desirable that the pending constitutional amendment relative to the composition of the board of education be adopted to reduce the size of the board and eliminate ex officio memberships.

Under the proposed plan the board should appoint the president of the University of Montana and, as soon as a constitutional amendment can be secured, the head of the proposed division of public and special schools. The board should have the same powers as boards of departments, but in addition should have authority to initiate rules, approve budgets, and specify policies. It would continue to serve, as required by federal law, as the board to cooperate with certain federal agencies. For the purpose of representation on the executive cabinet and handling routine financial transactions the two administrative heads would take the place of the board as head of the department.

Because it is not in fact an educational institution, it is suggested that the Montana state training school be removed from the jurisdiction of the board of education and placed, with other custodial and medical institutions, in the proposed department of public welfare. This same rule might be applied to the state orphans' home and, probably with somewhat less justification, to the state industrial school and the vocational school for girls.

Proposed Division of Public and Special Schools: It is suggested that the superintendent of public instruction be made the administrative head of a unit within the proposed department of education to which would be assigned all educational activities of the state elementary and secondary grade and certain other miscellaneous educational activities. At such time as the constitution can be amended to permit, the head of this division should be appointed by the state board of education. At that time the title might well be changed to "director of education" or "commissioner of education."

The head of this division, subject to the authority vested in the board should be administratively responsible for all of the activities assigned to the division.

Proposed Transfers of Functions to the Division of Public and Special Schools: All of the functions of the superintendent of public instruction, none of which are assigned by the constitution, should be transferred to the division.

The bureau of vocational rehabilitation, which is now directly under the board of education, should be brought into closer relationship with other educational activities. Furthermore, a reduction in the number of executive heads responsible to the board is essential to good organization. It is, therefore, recommended that the functions of the bureau of vocational rehabilitation be transferred to the proposed division of public and special schools. This work might be more properly assigned to the proposed department of public welfare, but federal aid is apparently dependent on its remaining under the jurisdiction of the board of education.

The state correspondence school, whose director is now appointed by the superintendent of public instruction, should be made a part of the proposed division by the transfer of its separate statutory functions to the division.

Elsewhere in this report it is recommended that the investment functions of the teachers' retirement system, and the retirement board thereof, be transferred to the state fiscal agencies. The remaining activities of the system should be transferred to the proposed division with the state board of education serving as the board for policies, appeals, and any other matters requiring board action.

The historical and miscellaneous library, operated under a board of trustees, and in conjunction with the historical society of Montana is engaged in activities very closely related to education. Their importance does not justify a separate agency. Unless the library is moved to one of the units of the University of Montana, as recommended in the report of this series in which it is discussed, its direction should be the responsibility of the proposed division of public and special schools. If it is moved to one of the university units, the functions of the agencies involved should be transferred to the University of Montana.

It is recommended elsewhere in this series of reports that the records of the custodian of records of the Grand Army of the Republic and United Spanish War Veterans be transferred to the historical library. The functions of the custodian should be transferred to whatever agency takes the responsibility for the historical library.

As is more fully explained in the report of this series dealing with the office of superintendent of public instruction, the functions of the state board of educational examiners should be transferred to the proposed division of public and special schools.

The state library extension commission, which serves also as the state board of library examiners, is a very minor board. It does not have funds for administrative work. If work such as was contemplated in its creation is to be developed, it should be done by the educational authorities. It is, therefore, recommended that the functions of these boards be transferred to the proposed division.

The work of the Montana state commission for the blind is closely related to that of the bureau of vocational rehabilitation and also to that of the department of public welfare in granting aid to the needy blind. Its functions should be consolidated with one or the other, probably with those of vocational rehabilitation in the division of public and special schools.

It is further proposed that the Montana state school for the deaf and blind and, unless they are transferred to the proposed department of public welfare, the Montana state industrial school, the state vocational school for girls, and the state orphans' home, be placed under the jurisdiction of the superintendent of public instruction. The board cannot devote adequate attention to so many different agencies, and since all of these offer elementary or secondary education as one of their primary objectives, they should logically be subject to the authority of the state official responsible for such education. It is, therefore, recommended that each

f these institutions and the functions of their respective executive boards be transferred to the proposed division of public and pecial schools.

The University of Montana: A separate report of this eries deals at length with the relationships of the board of education to the University of Montana and with the internal organization of the university and the relationships of its units to each other. In substance a single administrative head for the University of Montana is recommended, with officers of lower rank in immediate charge at each of the units.

Within the Montana State College, as a unit of the University of Montana, it is here proposed that further changes be made as discussed in the paragraphs that follow.

Proposed Transfers to the Montana State College: The Montana State College through the state extension service, the agricultural experiment station, the state entomologist, and the Montana grain inspection laboratory, carries on an extensive program for the improvement of agriculture in the state and does some regulatory work. This program closely parallels in many respects the work of other state agencies. Provision should be made for the closest possible coordination of the several programs.

If it were not for federal restrictions in connection with financial support of parts of the program, the logical way of arriving at this coordination would be to transfer much of the work of these units of the college to an administrative department. Because of federal restrictions, this cannot be done.

The next best alternative, and one which is wholly consistent with the present policies and objectives of these college services, is to consolidate all of this work under the jurisdiction of the college.

The state soil conservation committee, of which two officers of the college are members, has as its purpose assisting in the organization and operation of soil conservation districts in order that they may participate in a federal program. This work is almost identical with some of the activities of the extension service and should be transferred to the college.

The Montana agricultural conservation board has a purpose closely related to that of the state soil conservation committee. It is no longer needed and the act should be repealed or its functions transferred to the college.

The department of agriculture, labor, and industry has many functions not far different from those of the college. It operates a grain laboratory identical in purpose and method with the Montana grain inspection laboratory operated by the college. These laboratories should all be under the same direction. Since the college finds some use for its laboratory in connection with research, it is recommended that those of the department of agriculture, labor, and industry be transferred to the college.

The department of agriculture, labor, and industry has arious functions in the promotion of agriculture, the encouragement of farmers' organizations, and the collection and dissemination f agricultural statistics and market news. These functions so losely parallel the objectives of the college that it would be desirable to transfer them to the college.

The department furthermore licenses fertilizer manufacurers and dealers, but the laboratory work which is the sole basis or this is done by the college. The licenses might as well be issued by the college, or by the proposed department of revenue on the asis of advice from the college.

Outside of these functions and those which it is recommended elsewhere in this report be transferred to other agencies, he only activities of consequence in the department of agriculture, abor, and industry are those of the horticulture division in connection with the control of plant diseases, plant-destroying insects, and the marketing of horticultural products. By law, the department is also responsible for operating a state fair but this responsibility is obsolete and all reference to it should be repealed.

The horticultural work is not far different from certain work of the college in many respects. For example, the state entomologist at the college is engaged in control of insect pests and the extension service devotes considerable energey to certain phases of marketing. Since so much of the agricultural work is necessarily under the jurisdiction of the college, it is recommended that this small addition be made to bring it all together.

The only valid objection to this transfer would be the slight amount of enforcement work involved. This is much less extensive than in most states. In fact, although certain inspections and certain grading are required by law, there is almost no enforcement work, as such. The extension service does far more enforcement work under various federal agricultural programs than would ever be required on the activities which it is suggested be transferred from the department of agriculture, labor, and industry.

As an alternative to the proposal that all of these agricultural functions of the department of agriculture, labor, and industry be transferred to the Montana State College, other, but far less satisfactory, disposition might be made for the exercise of the functions of the present division of horticulture. Even if the department of agriculture, labor, and industry is left as a separate unit with most of its present functions, the activities other than horticultural work recommended for transfer to the college should be so transferred to eliminate duplication of effort and to avoid conflicts arising by reason of divided responsibility for work in the same field. The best alternative for the assignment of the horticultural work would be to the same department to which livestock sanitary work and dairy and milk control work are assigned. Some name acceptable to all those interested would have to be found for such a department.

State Agencies Within the State College and School of Mines: The designation of the state entomologist and the Montana grain inspection laboratory in such a way as to make them separate legal entities should be dropped and their responsibilities vested directly in the college. Similarly, in the Montana School of Mines the Montana state bureau of mines and geology should not be a separate legal entity.

4. Department of Highways:

Proposed Head:

Director of highways, appointed by the governor

Proposed Board:

Board of planning and works

Proposed Functions:

Functions now assigned to:

State highway commission

Except: Administration and supervision of the Montana highway patrol; and operation and maintenance of state highway building.

Type of Department:

Type A

Proposed Transfers of Functions: The proposed department of highways would be a continuation of the organization now under the direction of the state highway commission and the state highway engineer, but would not include the Montana highway patrol. The functions of the commission would be transferred to the department, which would operate under a single head instead of under a board. The board would retain only the class of functions described previously for boards of departments. In its specific application to this department the board would have responsibility for:

Approval of designations of roads and routes recommended by the director and his staff.

Approval of the awarding of contracts.

Approval of long range plans for road improvements to be undertaken and of the order of individual improvements on lists of projects.

Hearing appeals on the part of property owners or representatives of communities having grievances over actions of the department in the designation of routes or the development of roads.

The internal organization of the department is fully discussed in the report of this series on the state highway commission.

Alternative Provisions with Reference to the Board for the Department: The plan suggested contemplates that one board would serve this department and two other departments. If it is felt that this plan would, for any reason, be totally unsatisfactory, a separate board with the same functions as to the department could be substituted.

15. Department of Labor:

Proposed Head:

Director of labor, appointed by the governor

Proposed Board:

Unemployment compensation commission

Proposed Functions:

Functions now assigned to:

Unemployment compensation commission

Industrial accident board

Commissioner of agriculture, labor, and industry to the extent that they involve the enforcement of labor laws and laws regulating employment officers, and the mediation of labor disputes

Fire marshal insofar as they relate to enforcement of laws governing storage of explosives and to inspections of elevators in public buildings

State board of arbitration and conciliation

Type of Department:

Type D

Proposed Transfers of Functions: The proposed department would be responsible for those services of the state that are rendered primarily for the benefit of labor. Of course, the most extensive of these services are those assigned at present to the unemployment compensation commission, including the employment service recently taken over by the federal government, presumably as a temporary measure. Of course, any change in organization affecting the unemployment compensation commission in any way must have the approval of the federal authorities. The recommendation that it be included in the proposed department of labor must, therefore, be contingent upon such approval. If approval is withheld, the commission may have to continue as a separate agency, as outlined with other alternatives below.

The work of the industrial accident board is of three types. First, it operates an insurance business and writes workmen's compensation insurance. Second, it adjudicates workers' claims for compensation for injuries. Third, it carries on various safety inspection work for the protection of workers from accidents. The first two activities are very similar in type to the work of the unemployment compensation commission and call for the same type of administration. The best possible solution from the state's standpoint would be to provide for the exercise of the functions of both agencies in the same department.

The functions of the commissioner of agriculture, labor, and industry with respect to enforcement of labor laws, issuance of age certificates, regulation of employment offices, and mediation of labor disputes are foreign to the other functions of that office. They are closely associated with the problem of protection of labor by enforcement of safety regulations. If a department of labor is established, these functions should unquestionably be included.

The functions of the fire marshal in the enforcement of laws governing the storage of explosives is engaged in activities closely paralleling those of the industrial accident board in safety inspection and, particularly, mine inspection. The same is true in a measure of the inspection of elevators in public buildings which is closely enough related to boiler inspection work of the industrial accident board to permit consolidation of the staffs. This work should all be combined with inspection work now assigned to the industrial accident board.

The state board of arbitration and conciliation was created as a formal device to accomplish what is being more effectively accomplished less formally through the department of agriculture, labor, and industry. It has not been used. It is recommended that the law establishing the board be repealed. If this is not done, its functions should be transferred to the proposed department of labor.

Board of the Department: The proposed department of labor is listed as of "Type D" because the unemployment compensation commission has the official responsibility for administration of unemployment compensation and this cannot be changed without approval of the federal authorities. There is every reason for this to be a "Type A" department and it should be made that type if approval can be secured. Under any circumstances the administrative head of the department should not be a member of the board.

The plan proposed here, subject to federal approval, is that the unemployment compensation commission should serve also as the board to approve workmen's compensation insurance rates, hear appeals on adjudication of compensation claims, and approve rules governing matters relating to workmen's compensation insurance.

Alternative Plans: If federal approval cannot be secured for the preferred plan described, or a major fraction of it, it will be necessary to keep the unemployment compensation commission

as a separate agency. If this is done it should be designated as the department of employment. The federal government would not object to this. There probably would be no objection to a change in the organization to the extent of having an executive head of the department appointed by the governor and not made a member of the board. In fact as a separate department this could probably be made a "Type A" department with federal approval and this should be done.

If a separate department of employment is established, the remaining activities suggested for transfer to the proposed department of labor might still be set up as a department of labor. Some provision would need to be made for a board to serve the department in matters associated with workmen's compensation insurance. This board might well be the board of public service.

16. Department of Liquor Control:

Proposed Head:

Director of liquor control, appointed by the governor

Proposed Board:

Board of public service

Proposed Functions:

Functions now assigned to:

Montana liquor control board

Except: Enforcement of the liquor control act

State temperance commission

Type of Department:

Type A

Proposed Transfers of Functions: It is proposed that the functions now assigned to the Montana liquor control board be transferred, with the exceptions noted below, to a department of liquor control headed by a director. It is proposed that the liquor control board be discontinued. There is very little need for a board in conjunction with this department. In its major activity of buying and selling liquor the requirements are for managerial skill of the same type required in any large store. Only in conjunction with the issuance of licenses is there any question of appeals that needsto be provided for through a board. This very limited requirement for a board to deal only with such appeals and to approve any rules governing eligibility for licenses could be handled by one of the boards set up for another department. The proposed board of public service is suggested as a suitable board for this assignment.

The state temperance commission is at present inactive. Unless the statute creating it is to be repealed, its functions should be transferred to the proposed department of liquor control. The liquor control board, in cooperation with the educational authorities is now carrying on some of the work formerly done by the state temperance commission.

17. Department of Live Stock and Dairying:

Proposed Head:

Director of live stock and dairying, appointed by the governor

Proposed Board:

Board of public service

Proposed Functions:

Functions now assigned to:

Livestock sanitary board

Department of agriculture, labor, and industry, insofar as they relate to the regulation of the dairy industry, the manufacture of dairy products, and the distribution of dairy products

Montana milk control board

Stallion registration board

Type of Department:

Type A

Proposed Transfers of Functions: The proposed department would be a continuation of the organization of the livestock sanitary board under a different form of overhead organization, and with certain added functions. All of the functions of the livestock sanitary board should be transferred to the proposed department.

Among the responsibilities of the livestock sanitary board are certain functions relating to the regulation and inspection of dairies. But the department of agriculture, labor, and industry has a division devoted to the regulation of the sale, manufacture, and distribution of dairy products. The line of demarcation between the duties of these two agencies is too artificial to permit its justification under careful scrutiny. This work needs badly to be brought together under the same supervision to avoid overlapping and to insure that there are no holes between the two through which regulation can be escaped entirely.

While regulation of the production and distribution of milk and diary products is more properly a function of a public health agency than of either an agricultural or live stock agency, there are certain practical difficulties of distance, travel, and staff that make it doubtful whether there would be justification for the transfer of these functions to the proposed department of public health. That department should retain its general powers with reference to milk control, along with all other food control, to be used in any emergency, but the provision for all routine work should be made through the proposed department of live stock and dairying.

The work of the Montana milk control board is somewhat different in purpose from that of the livestock sanitary board and the department of agriculture, labor, and industry, but in practice it involves working with the same people and for this reason it can be most economically handled by assigning it to the same agency. It is, therefore, recommended for transfer to the proposed department of live stock and dairying. The executive officer of the livestock sanitary board is now chairman of the milk control board.

As an alternative, the functions of the present Montana milk control board might be assigned to the proposed department of public service to be carried out in conjunction with the enforcement of the unfair trade practices act and other price control measures. However, it is believed that the suggested plan of having the board of public service handle matters arising in the proposed department of live stock and dairying requiring board action would serve any purposes that would be served by the transfer of this work to the proposed department of public service.

The stallion registration board was formerly of considerable importance, but the decrease in horse breeding in the state has reduced it to almost insignificant status. Almost the only requirements for staff are the services of a veterinarian on occasion. Since the proposed department of live stock and dairying would have veterinarians located strategically all over the state, it is suggested that the functions of the stallion registration board be transferred to the proposed department. An alternative would be their transfer to the agricultural experiment station.

Organization of the Department: One major change proposed in setting up the department of live stock and dairying is in the managing authority. Officially, the heads of the two agencies that would be merged in their entirety in the proposed department are boards, but each appoints an executive officer. The effect of these proposals would be to have one department head, appointed by the governor and responsible directly under the law for the performance of all the duties involved.

Most of the work of the proposed department would be such that no board would be needed. But there are a few elements involved that are too sweeping in their effect to place the responsibility for them in the hands of a single officer without some check by a deliberative body. A major item in this category is rules governing the movement of live stock in connection with the

control of disease and the closely related subjects of quarantines, condemnation of diseased cattle, and dipping requirements. Another is the fixing of prices under the authority now vested in the milk control board. For these matters a board should be available to formulate policy, approve rules, and hear appeals. However, the volume of work would be small and a separate board for this department would hardly be justified. It is, therefore, suggested that the proposed board of public service be given the responsibility for passing on these matters. An almost equally satisfactory alternative would be to substitute the proposed board of health and welfare.

The only effect of the proposed transfers on the staff as now found under the livestock sanitary board would be an expansion in milk and dairy control. All employes engaged exclusively in this field should be brought together in one subordinate unit with a single supervisory employe reporting directly to the head of the department.

Alternative Plans: Under another heading it is suggested that various agricultural functions of the present department of agriculture, labor, and industry be transferred to the state college to be operated in conjunction with the extension service and the agricultural experiment station. From the standpoints of economy, effectiveness, and coordination of like work, this is by far the best plan available. It is recognized, however, that insurmountable opposition to its adoption might be encountered.

The second best plan, which is far inferior to the first, but which would be an improvement over the present organization, and is amply supported by precedents in other states, would be the consolidation of the horticultural activities of that department with live stock and dairying activities in a single department. In most other states such a department would be designated as the "department of agriculture," but some modification of that title might be desirable in Montana to take cognizance of the importance of the live stock industry.

If this alternative is adopted, and if the proposed department of public safety is not created, the functions of the livestock commission might be included in the department.

As another alternative, which would be incompatible with the alternatives just suggested, the whole department of live stock and dairying, as suggested in the preferred plan, might be merged with the proposed department of public health under some appropriate name. There are many good reasons for such a consolidation although it admittedly would be somewhat unorthodox.

These reasons are of four kinds. First, both departments require the same general class of employes, including inspectors with similar qualifications, laboratory technicians, and professional scientific employes. Second, both departments are "field" departments where the primary activity is in the form of inspections and related types of work throughout the state. Third, both departments have almost unlimited powers under certain similar emergency conditions and very broad powers under any conditions as enforcement

agencies in their respective fields, yet they must secure most of their results, to be effective, by education and persuasion without resort to those powers. Fourth, in very large segments of their activities, their objectives are identical. The work of milk control and meat inspection on the part of the livestock sanitary board is part of the same state program of protection of food, of which the enforcement of pure food laws and some of the work of sanitary inspection by the state board of health is an integral part. The control of diseases in cattle by the livestock sanitary board is so directed as to place special emphasis on diseases transmissible to man, of which there are many. This work is but one aspect in the broader field of epidemiology which lies entirely within the jurisdiction of the health agency.

Because of all these factors, this alternative plan may well be regarded as more desirable, except from the standpoint of the opposition it might possibly engender, than the so-called preferred plan.

18. Department of Military Affairs:

Proposed Head:

Adjutant general, appointed by the governor as at present

Proposed Functions:

The proposed functions are those of:

Adjutant general

Type of Department:

Type A

Comments: The proposed department would be a continuation of the office of adjutant general with a change of name only. While the department would be small, particularly under present circumstances when the national guard is not in the state, its functions are unlike those of any other state agency and consolidation with any other agency would seem to offer no particular advantages. None of the functions of the proposed department are such as to call for a board to be attached to the department.

19. Department of Occupational Standards:

The suggestions with reference to a department of occupational standards do not fall exactly into the same pattern as those with reference to other departments.

The problem toward which the suggestion for this department is directed is that of the various independent boards engaged in the examination and licensing of practitioners of various professions and occupations. For the most part these boards represent

rganizations of practitioners in the various fields covered. Either ndirectly or directly the members of the official boards are usually elected in behalf of these associations.

No question can well be raised as to the desirability of ontrolling the practice of these various professions and occupations, ut it can be demonstrated that under present conditions there is a trong tendency for the regulation under at least some of the boards o lean toward protection of the present practitioners rather than rotection of the public interest. This is particularly true with eference to admission of applicants to the right to practice.

While the situation in the foregoing respects is not aterially different from that found in many other states, it is an nsavory condition in which the state allows its name and authority o be used by private organizations to further their own ends without regard to the public interest.

Many of the boards are almost indistinguishable from the ssociations that sponsor them. They are not subject to either administrative or financial control. Several do not deposit their unds in the state treasury and, for all practical purposes, any of hem may expend whatever moneys they collect in any way they see it.

No detailed analysis of the operations of these boards was ade in the course of the study on which this series of reports is ased, but casual observation is all that is required to see clearly hat the conditions described above are true. Because of the great imilarity between the way these boards operate in nearly all states, he following examples of the extremes to which they sometimes go, aken from other states where intensive studies have been made, will llustrate the possibilities of the situation.

In one state the officials of a state examining board were mazed that anyone should question the purchase from state funds of bottle of whiskey as a Christmas present for the janitor, even hough the state was "dry" at the time. In another large state one f the examining boards, from large numbers of applicants, almost ever passed more than one or two applicants at the semi-annual examination. Many of those who failed had extensive training and experience of a type that should have qualified them, and had studied ard for years before taking the examination. It was freely admitted in the profession that this practice was followed to keep down ompetition. This latter practice in greater or lesser degree is ommon among such boards.

Such conditions, whether or not they have actually occurred in Montana, are always possibilities so long as these boards emain:

Independent of administrative control
Independent of fiscal control
Representative of private, rather than public, interest while vested with state authority.

Measures are needed to improve the basic situation with reference to them. One possible solution would be in the creation of the suggested department of occupational standards. Such a department, even if its central staff consisted of only one employe who would receive reports and serve as a liaison officer between the boards and the governor and state fiscal agencies, would be some improvement. Under such a plan the boards could retain their separate identity and powers, except such as might conflict with measures of fiscal control.

The boards involved that should be included under such a plan are as follows:

Abstracters board of examiners
Board of examiners in accountancy
Board of architectural examiners
Board of barber examiners
Montana state examining board of beauty culturists
State board of chiropody medical examiners
State board of chiropractic examiners
State board of dental examiners of the state of Montana
Board of embalmers and funeral directors of the state of Montana
Board of medical examiners
Board of examiners for nurses
Montana state board of examiners in optometry
State board of osteopathic examiners
Montana state board of pharmacy
Board of examiners in photography
State board of veterinary medical examiners

Further development of this plan to the extent of having a single administrative staff for all the boards would be more worthwhile.

A still further step, which would probably be difficult to accomplish, though it has been done in a small measure in some few states, would be to place the boards in an advisory capacity only, and vest all actual authority in the administrative staff of the department. Under such a plan the authority left to the boards could even vary according to the type of occupation involved with less of the responsibility transferred to the department in the cases of some of the higher professions than in the cases of some of the trades and related vocations.

What might be regarded as the ideal plan, from the standpoint of the state and that of the protection of the public interest, would be the vesting of all functions of examining, licensing, and regulating the various occupations involved in a department of "Type A" headed by a director appointed by the governor, and with a single board attached to the department. Such a department could call at will upon members of the various occupational groups or upon advisory committees from such groups for advice and technical assistance.

20. Department of Public Health:

Proposed Head:

Director of health

Proposed Board:

Board of health and welfare

Proposed Functions:

Functions now assigned to:

State board of health and all of its subordinate officers and employes

Montana state board of entomology

Department of agriculture, labor, and industry in the regulation, licensing, and inspection of egg dealers and oleomargarine dealers

Montana state board of food distributors to the extent the enforcement of pure food laws is involved

Type of Department:

Type A

Proposed Transfers of Functions: The proposed department of public health would be a continuation of the organization now officially designated as the state board of health. There would be some minor additions of duties, but, more important, a change in the form of overhead organization.

The Montana state board of entomology served a useful purpose after it was organized, but its work has largely been taken over by the United States public health service. The functions of the board should be transferred to the proposed department of public health. If there is need for assistance from the state entomologist or the state veterinarian, it could be secured on a cooperative basis without the formal device of a board.

The functions of the department of agriculture, labor, and industry in the regulation, licensing, and inspection of egg dealers and oleomargarine dealers are such that almost any agency of the state government could handle them as they involve no major problems. The public health agency is probably in the best position to do this work because a big part of the establishments affected by this work are already under surveillance of the health authorities, either state or local.

By law, the Montana state board of food distributors is charged with the enforcement of the pure food laws. Actually, its activities are primarily in other directions, but the statutory

assignment of functions in this field should be transferred to the public health agency. The other activities of the Montana state board of food distributors should be consolidated with those of the Montana trade commission.

Proposed Organization of the Department: The changes of functions would not affect the internal organization, but it is proposed that the department be headed by a director appointed by the governor and that the prominence and responsibility of the board, as such, be curtailed. There would be but limited activity in the proposed department of public health where a board would be needed under the criteria set forth earlier in this report. However, in deference to the established precedent in this field, it is proposed that provision be made for a board to serve this department and the department of public welfare, jointly. The board should be officially attached to the department of social welfare because the vast majority of its work would be with that department. Of course, if a separate board is deemed to be necessary, it could be created as the board of health and given only the powers described earlier for boards of departments.

Alternative Plan: As is more fully discussed in connection with the proposed department of live stock and dairying, there would be many advantages in the consolidation of the proposed department of live stock and dairying with the proposed department of public health, under an appropriate department name.

21. Department of Public Safety:

Proposed Head:

Director of public safety

Proposed Functions:

Functions now assigned to:

Montana highway patrol and the state highway commission (or highway patrol board), with reference to the Montana highway patrol

Livestock commission

Except: Predatory animal control

Executive officer of the livestock commission as general recorder of marks and brands, ex officio

Bureau of criminal identification and investigation (now under the warden of the penitentiary)

Registrar of motor vehicles, in the enforcement of the financial responsibility law

State athletic commission

Montana liquor control board, in the enforcement of the liquor control act

Type of Department:

Type A

Purpose of Creating the Proposed Department: The proposal for the creation of a department of public safety calls for special explanation because of the fear and prejudice that is aroused in many quarters by any proposal that bears any resemblance to a plan of establishing a state police force. The basis proposal here made does not contemplate a state police force of the type to which such objection is customarily raised. As discussed under a later heading, as an alternative proposal, there may be adequate justification for the establishment of a full-fledged state police organization, but that would involve an entirely separate decision completely severable from the establishment of a department of public safety as contemplated by the proposal here set forth.

The reason for creating such a department would be to provide a more suitable organization for carrying on activities already conducted by the state. It would not, unless specific decisions were made to do so, involve the addition of a single power or any authority not now assigned to the agencies listed above from which it is proposed that functions be transferred to the new department. All such later proposals to add duties or powers are entirely severable from the basic plan and can be rejected without disrupting that plan.

Proposed Transfers of Functions: The functions and activities of the Montana highway patrol are not related to those of the main organization under the state highway commission. The patrol of the highways to enforce motor vehicle laws has little or nothing in common with their maintenance. It is, therefore, recommended that the highway patrol and other activities more closely related to it than those of the highway commission be brought together in a new department.

The largest organization, outside of the highway patrol, which it is proposed be included in the new department is that of the livestock commission. One activity of the commission would not be included in the transfer, namely, predatory animal control. The predatory animal control work is administered primarily by federal agencies with the state participating in the cost. Under the proposed plan this work would be placed under the supervision of the fish and game authorities in whatever department fish and game work is transferred to. The state fish and game commission now participates in this work.

The main duties of the livestock commission and of its executive officer as general recorder of marks and brands, ex officio, are to protect live stock from theft. This work is but remotely associated with that of disease control in live stock which the livestock commission, under another name, also supervises. As a law enforcement function the work in connection with cattle theft belongs with other strictly law enforcement activities such as those assigned to the highway patrol.

By statute a bureau of criminal identification and investigation is created to operate under the warden of the penitentiary. This is not now operating to the extent contemplated by law. It is recommended that it functions be transferred to the proposed department of public safety and that an effort be made to maintain its operations in the manner contemplated by the act establishing the bureau.

One of the functions assigned to the registrar of motor vehicles is the enforcement of the financial responsibility law. This is properly a function of the highway patrol since the registrar's office is strictly a clerical agency with no facilities for enforcement. The work should be assigned to the highway patrol no matter where the patrol is placed in the general organization.

Neither the volume of work nor its importance justifies the continuation of the state athletic commission as a separate agency. Its functions should be assigned to some state agency where use could be made of regular employes to the maximum extent feasible and where temporary or part-time employes would not have to be used. There is no compelling reason why this agency should be the proposed department of public safety, but that department would have employes scattered over the state who could perform the duties now required of the commission with very little travel.

The Montana liquor control board is primarily a business organization engaged in the sale of liquor. It has been assigned, also, the duty of enforcing the liquor laws with reference to the private sale of liquor and has a staff of nine inspectors on this work. Since such law enforcement is in no way related to the primary functions of the board, it is recommended that it be transferred to the proposed department of public safety to be handled there in conjunction with other law enforcement work.

Organization of the Department: It is proposed that the department be headed by a single executive appointed by the governor. None of the activities of the proposed department are such as to require the services of a board.

The internal organization under the director should probably be made up of the following units:

Division of administrative service, responsible for all clerical and stenographic work, brand recording, criminal identification records, payrolls, and other office work

Division of live stock control, responsible for all market inspection and other field work on live stock theft prevention

Division of highway patrol, responsible for the work now conducted by the highway patrol and for enforcement of the motor vehicle financial responsibility law

Division of liquor law enforcement, responsible for the work transferred from the Montana liquor control board.

The director might serve as the head of one of these divisions. While separate divisions are proposed for the several activities, the greatest possible interchange of staff and information should be obtained by the director, and employes of all of the field divisions should be directed to assist in any way possible with the work of the others.

Alternative Proposals Affecting the Department: Certain other miscellaneous enforcement functions, under alternatives to the preferred plans for other departments, might be transferred to the proposed department of public safety. Among the functions in this category are those of

Commissioner of agriculture, labor, and industry, as sealer of weights and measures, ex officio (Proposed for transfer to the department of public service)

Fire marshal (Proposed for transfer, in part, to the department of commercial supervision and, in part, to the department of labor)

Industrial accident board, in safety and accident prevention (Proposed for transfer to the department of labor).

Suggestions for Additional Functions: In addition to the functions now carried on by other agencies which it is proposed be transferred to the new department of public safety, there are certain functions of the state for which no adequate provision is made that might be added to those of the proposed department.

First, there is a need for detective services. The situation with respect to such services is somewhat different from that in the more populous states. In Montana, even the largest municipalities have only the most meager facilities for the detection of criminals. In the vast majority of counties, there are no facilities of any kind except such as can be provided by completely untrained sheriffs and deputies. This is no reflection on these law enforcement officers, since the volume of such work required is too small in the individual counties to justify the employment of anyone with the training necessary for effective work.

While the individual counties have too little work of this kind to justify the employment of detectives, there is need for some place to which they can turn for assistance when occasion arises. It is, therefore, suggested that provision be made in one central place for furnishing detective services. The best place would be in the proposed department of public safety, where the records which the present bureau of criminal identification and investigation is expected to keep would form a nucleus of information that could be elaborated to the extent required.

In making this suggestion there is no thought that the initial provision need be very extensive. One well qualified employe could do much to fill the void that now exists. Later, if there should be a demonstrated demand for the service beyond the

capacity of this one employe, provision could be made for expanding the staff.

A second type of expansion needed is in the state's activity in general criminal law enforcement. It is recognized that any proposal along these lines will meet serious opposition in certain quarters. It is, therefore, made entirely severable from the main proposal that a department of public safety be created. If it should be rejected, the proposed department would not be affected.

The need for statewide enforcement of certain specific criminal laws has been recognized and provided for through such agencies as the livestock commission and, in a restricted way, by the Montana highway patrol. In general, however, the theory that criminal law enforcement is strictly local in character has been carefully observed. There are even technical restrictions as to the right of the highway patrol to make arrests for automobile theft.

A number of states have recognized for many years that criminal law enforcement on a strictly local basis cannot possibly be very effective, since the criminals find it too easy to get beyond the jurisdiction of local officers, in many instances before the crime is even detected. Since this situation does exist, there is a definite need for the use of the larger jurisdiction of the state as a unit in law enforcement.

With this situation in mind, serious consideration should be given to expanding the authority of the highway patrol and giving its members full police powers. This would not necessarily have to be accompanied by an increase in the size of the patrol, but such an increase would be desirable if this change were made.

22. Department of Public Service:

Proposed Head:

Director of public service, appointed by the governor

Proposed Board:

Board of public service, with members appointed by the governor

Proposed Functions:

Functions now assigned to:

Board of railroad commissioners of the state of Montana

Public service commission of Montana

Montana trade commission

Oil conservation board of the state of Montana

Except: Collection of oil producer's privilege and license tax

Montana state board of food distributors

Except: Enforcement of pure food laws

Commissioner of agriculture, labor, and industry as state sealer of weights and measures, ex officio, and as to the promulgation of standards for containers of farm products

Attorney general in the enforcement of acts prohibiting price discrimination (RCM 10904 et seq.; RCM 4193.1 et seq.), except for actual prosecution of cases

Type of Department:

Type A

Proposed Transfers of Functions: The proposed department of public service would be a continuation of the organization under the board of railroad commissioners in its several capacities. There would be minor additions in responsibilities, but the major change proposed is in the form of organization as discussed later.

The proposal calls for the outright transfer to a single agency of the functions now carried on by the commission under its several aliases - board of railroad commissioners of the state of Montana; public service commission of Montana; and Montana trade commission.

The public service commission now has authority over the quality, measurement, and price of motor fuel products. The board of railroad commissioners supervises the drilling, operation, abandonment, and plugging of oil and gas wells. Since the organization is now so involved with oil and gas matters, it is recommended that the functions of the oil conservation board of the state of Montana, which have to do primarily with collection of information, be transferred to the proposed new department. This transfer should not include the collection of the oil producer's privilege and license tax which can be more effectively and economically handled by the proposed department of revenue.

The statute creating the Montana state board of food distributors provides that its purpose shall be "to regulate the quality of all food sold at retail in this state, using the state and federal pure food and drug acts as the standard." This is, of course, a proper function of the state's public health agency. However, the primary activity of the board is in the enforcement of the fair trade act and the unfair practices act. In this work it overlaps and duplicates the work of the Montana trade commission. The work should be consolidated.

The commissioner of agriculture, labor, and industry as state sealer of weights and measures, ex officio, is responsible for the enforcement of the laws regulating all types of weights and measures. But the public service commission is engaged in the enforcement of laws governing measurements in an important segment of this same field - namely, motor fuel and other oil products. This work might well be consolidated in the interests of economy, particularly in reducing traveling expenses. It is not essential that this work all be transferred to the proposed department of public service. That would be a satisfactory location for it, but another suitable one would be the proposed department of public safety.

The attorney general has been assigned sole responsibility for the enforcement of two acts relating to price discrimination. This work is very closely related to the work of the trade commission in the enforcement of the unfair practices act. Insofar as the state may undertake to enforce these acts by inspection, investigation, and other administrative devices, the work should all be done by the same staff The functions of the attorney general in this field, except as they apply to the actual prosecution of court cases, should be transferred to the proposed department of public service.

Organization of the Department: Except for the minor additions of functions just discussed, the main change which it is proposed be made in creating the department of public safety is in the form of overhead organization and in the powers and duties of the board.

The theory behind the creation of such boards as the railroad commissioners and public service commission has usually been that the primary duty would be to sit in judgment as a board on questions of rates or service facilities. Such boards were primarily designed as a type of sub-court. There has ordinarily been little thought given as to staff facilities and administrative routine required for the accomplishment of the stated purposes. Although a change in this concept has been slow, it is apparent to anyone who analyzes the situation carefully that only a very small fraction of the work is involved in the formal proceedings of hearings before the board. Most of it is the same kind of administrative activity found in any other department whose functions are regulatory in character.

The overhead organization has heretofore been designed primarily for the exercise of the quasi-judicial functions. It is proposed that it be adapted to the main work to be done. Such an organization should have a single administrative head, who might be designated as director of public service. The responsibility for administration of all functions assigned to the department should be vested in such director, subject to such review by a board as is indicated earlier in this report with references to the authority of boards of departments.

Transition to the New Organization: An immediate change to the type of organization proposed would be handicapped by the existing statutes governing the selection of members of the board of railroad commissioners. These members are elected - one each two years - for six-year terms. The legislative assembly may not change their compensation during their respective terms. It is a close legal question whether their offices could be abolished without the payment of salaries for the remainder of their respective terms. Even if this could be legally accomplished, it would be likely to give a bad name to the whole group of reorganization proposals. No such "ripper" provision is, therefore, advised. A substitute device, not entirely satisfactory, is suggested instead.

It is proposed that statutory provisions be enacted establishing the department as a "Type A" department but providing for transition on the following basis:

No further election of members, but continuation in office, as members of the proposed board of public service, of the members elected prior to the enactment of the legislation, until their terms expire or their offices otherwise become vacant.

Appointment by the governor, in accordance with the provisions suggested elsewhere in this report for all boards, of members to fill vacancies in the board.

Appointment by the governor of a director, under statutory instructions that he give due consideration to the qualifications of the elected members of the board in filling such position.

Provision for protection of any elected member who might resign to accept the directorship during the period of his elected term by forbidding his removal except through the process by which he could have been removed as a member of the board.

An alternative to the last two items would be to require, so long as two elected members remained on the board, that one of them should be designated by the governor as director but that he should continue to serve as a member of the board. If this plan is adopted, some additional compensation should be provided for the member serving as director, if a way can be found to make such payment legally.

None of these suggestions would involve any deviation from the functions suggested for the board under the proposed plan.

Relations of the Board to Other Departments: It is suggested that the proposed board of public service be designated by law as the board to deal with various matters requiring board action in conjunction with several other departments, namely:

Department of commercial supervision
Department of live stock and dairying
Department of liquor control.

Alternative Plan: The scope of the functions of the proposed department of public service might be expanded by the consolidation with it of the proposed department of commercial supervision. This would give the department responsibility for substantially all state regulation of business, as such. Such a plan would be entirely feasible from an operating standpoint and might well be regarded as even a little more desirable than the so-called preferred plan described.

23. Department of Public Welfare:

Proposed Head:

Director of public welfare, appointed by the governor

Proposed Boards:

Board of health and welfare

Board of state prison commissioners, pending amendment of the constitution

Proposed Functions:

Functions now assigned to:

State department of public welfare; and state board of public welfare

Veterans' welfare commission

State board of commissioners for the insane; the state insane asylum; and the state hospital for inebriates

Montana state tuberculosis sanitarium; its executive board; and the board of examiners in the supervision of the sanitarium

Montana soldiers' home and its board of managers

Montana state training school; its local executive board; and the board of education in the administration of the training school

State prison; the warden of the state prison; and the board of state prison commissioners, to the extent permitted by the constitution

State board of eugenics

Type of Department:

Type D

Proposed Transfers of Functions: The proposed department of public welfare would be a continuation of the present state department of public welfare with major increases in its responsibilities and changes in the respective responsibilities of the board and the administrative head of the department as discussed later. All of the functions of the old department would be transferred to the new department.

The veterans' welfare commission was created before there were any adequate state facilities for social welfare activities, and before the initiation of federal work programs, the development of the employment service, and the opening up of so many agencies designed to accomplish the objectives of the commission. With the facilities now available generally, there is no longer any need for a special agency to be maintained exclusively for veterans. While there is a certain sentimental justification for having a separate agency, such an agency cannot, without excessive expense, provide services of a caliber equal to the services that can be made available through agencies with a broader scope of duties and widespread staff facilities. As is brought out in the report of this series on the veterans' welfare commission, the statutory grant of powers is too broad for the work actually carried on. Subject to the limitations on powers and duties suggested in that report, all activities of the commission should be transferred to the department of public welfare.

In the various reports of this series on the so-called "custodial" institutions attention is called to the need for closer cooperation between the institution management and the state department of public welfare. This need arises primarily on admission, parole, and discharge. However, there is difficulty in dealing with these problems separately from social service activities affecting the inmates while they are in the institution. Every one of these institutions has need for the facilities of a field staff, which can, of course, be more economically and effectively provided as a single staff for all, rather than as a separate staff for each. The most logical and practical plan, therefore, is to furnish this service for all institutions through the department of public welfare.

From another viewpoint entirely, these institutions have much in common, regardless of the class of patients or inmates. Most of the problems of institutional management are the same regardless of whether the institution is for treatment, correction, or simple housing and care. In all of them the patients or inmates must be housed, fed, clothed, and given incidental medical treatment; the buildings, grounds, and service facilities must be operated and maintained; records of inmates must be kept; and in most of the institutions, farms, canneries, or other production enterprises must be operated. In fact, at least half of the expense is for activities almost entirely removed from any influence arising

from the class of patients or inmates. There are, therefore, many advantages to be derived from a common management of all of these institutions.

All state institutions having among their functions the custodial care of patients, inmates, or other resident beneficiaries might well be placed in a single department. The insane asylum, the Montana tuberculosis sanitarium, and the Montana soldiers' home should, unquestionably, be included in the same department. If provision were not already made for supervision by the state board of education of such custodial institutions as the Montana state training school, the state orphans' home, the Montana state industrial school, and the state vocational school for girls, all of them could properly be included in such a department. While all of these may be classified as educational institutions, this classification is somewhat far-fetched in the case of the Montana state training school, where only about 25 percent of the inmates attend classes of any kind. It is suggested that the training school be transferred from the jurisdiction of the board of education to the new department of welfare along with the other institutions recommended for transfer.

The remaining custodial institutions under the board of education, exclusive of the Montana state school for the deaf and blind, would be just as suitably placed in the proposed department of public welfare. However, in the absence of any major advantages to be gained by a transfer, none is specifically recommended.

In the cases of the tuberculosis sanitarium and the training school the functions of their respective local executive boards should be included in the transfer to the department.

The Montana state prison, now under the supervision of the board of state prison commissioners, as provided by the constitution, should be included in the group of institutions to be transferred to the department of public welfare. An outright transfer would require a constitutional amendment. However, the phraseology of the constitution..."such supervision...as may be prescribed by law..." leaves considerable leeway for legislative action. It is recommended that as much of the authority for management of the prison as is possible, consistent with the constitution, be transferred to the department of public welfare. Such authority as could not be transferred would remain in the board of state prison commissioners along with any other matters requiring board action affecting the prison. In other words, the board of state prison commissioners would serve as the board of the department insofar as prison affairs were concerned. At the first suitable opportunity the constitution should be amended to discontinue the board and permit transfer of its functions to the department. Thereafter, the department could be of "Type A."

The state board of eugenics has not been a very active body, probably at least in part, because of the formality attached to action by it. More can be accomplished, as demonstrated in other jurisdictions, by voluntary consent than by orders of such a board.

It is suggested that the functions of the board be transferred to the proposed board of health and welfare and that provision be made for that board to act only on advice of one or more of the physicians of the institutions.

Organization of the Department: As in the case of other departments, it is recommended that the director of public welfare be appointed by the governor, and that the board serve only in the capacities indicated for boards of other departments. This would be but little different from the position of the present board of public welfare except that it is proposed a single board serve both the departments of public welfare and public health.

Under the director, it is suggested that all social welfare activities be handled through a single division. This would be about the same as the division of public assistance with the addition of child welfare services, as recommended in the report of this series on the existing state department of public welfare.

Preferably all accounting, statistical, and miscellaneous clerical services should be merged in another division.

Each of the institutions should then rank as a division of the department headed by a superintendent, or an officer under whatever title may be given to him.

24. Department of Public Works:

Proposed Head:

Director of public works, appointed by the governor

Proposed Board:

Board of planning and works, appointed by the governor

Proposed Functions:

Functions now assigned to:

State engineer

State water conservation board

State planning board

State electrification authority

Carey land act board

Montana armory board

Veterans' memorial fund commission

Type of Department:

Type A

Proposed Transfers of Functions: The proposed department of public works would be a continuation of the group of agencies now centered around the state engineer, with some additional functions, but primarily a change in the organization to simplify the confusing plan now in effect. It would be the department responsible for all engineering work of the state except that done by the department of highways.

First, it is suggested that the proposed department be of "Type A" previously described, headed by a director of public works appointed by the governor, and, except as discussed later, with a board having only the powers and duties described for boards of departments.

The work now centered around the state engineer includes that of the state water conservation board, the state planning board, the state electrification authority, and the Carey land act board. The functions of all of these agencies should be transferred to the proposed department of public works.

As the agency for engineering and construction work this department should also be assigned the functions of the Montana armory board and the responsibility for design and supervision of construction of all state buildings. This would not mean that architectural work would have to be done by the staff of the department, but it would be done under its direction. All responsibilities of the veterans' memorial fund commission in conjunction with the construction of the proposed memorial building should likewise be transferred to the department.

As an alternative to suggestions made in connection with the department of finance, the function of operating and maintaining the capitol buildings might be transferred from the custodian to this department.

Board of Planning and Works: It is recommended that a small board of planning and works, with members appointed by the governor, be attached to the department. This board should exercise the regular functions of a board of a department as outlined, but because of the corporate character of several of the agencies that would be included in the department this board should be designated as the successor to the various boards having corporate responsibilities in all matters necessary to avoid any breach of the contracts under which various bonds have been issued.

It is proposed that this board serve also as the board for the proposed department of highways and the proposed department of conservation.

Alternative Proposal: A further consolidation of the proposed department of public works and the proposed department of conservation would be desirable for the reasons indicated in connection with the discussion of the proposed department of conservation.

Ex Officio Boards:

As has been previously indicated the device so commonly used in the state government of assigning duties to boards made up of various state officials serving ex officio is not to be regarded as good practice. However, there are six such boards established by the constitution. In the cases of five of these, it would be desirable to amend the constitution to abolish them. The other should have changes made in its membership.

Aside from the six boards in the constitution, there is one ex officio board established by statute which might be continued, without making any significant demands on the time of its members. It is proposed that the statutory provisions for all of the other numerous ex officio boards, except the temporary agencies, be repealed and that other disposition be made of the functions assigned to them as discussed in earlier sections of this report.

The ex officio boards which, because of the constitution, need to be provided for in the organization are as follows:

Board of examiners
Supervisory board (over investments)
State depository board
State board of land commissioners
Board of state prison commissioners
Board of pardons

The board of examiners is discussed in conjunction with the proposed department of finance. The supervisory board (over investments) is discussed in conjunction with the proposed department of the treasury, as is also the state depository board. The discussion of the state board of land commissioners will be found in connection with that of the proposed department of conservation. The board of state prison commissioners is discussed in connection with the proposed department of public welfare.

The board of pardons is not dealt with in connection with any of the proposed departments. Its functions are not administrative in the same sense as most of the departmental functions. This board serves as a check on abuse of the governor's pardoning power. Except for the fact that the state auditor should be relieved of membership and some other officer substituted, no change is suggested. The director of public welfare might be the other member if the prison is placed in that department, but there would be the objection that he would be a subordinate of the governor. Since the governor's action in issuing a pardon is, in effect, a reversal of the decision of the court, a member of the supreme court might even fill the third place on the board.

The state board of canvassers is an ex officio board of elected officials. This board might continue or its functions might be transferred to the proposed department of state.

Discontinuation of Agencies:

Throughout the latter part of this report recommendations are made for the transfer of functions of agencies to other agencies. It is contemplated in this connection that whenever all the functions of an existing agency are so transferred the agency would be discontinued. Any legislation adopted should provide for the abolition of existing agencies that are not provided for in the proposed organization.

Except for a few agencies mentioned below which are inactive, and for which outright repeal is recommended, the proposed plan contemplates that all functions of existing state agencies in the executive branch would be provided for through the agencies listed earlier in this report or through alternative agencies suggested in the various discussions of proposed departments.

Not included in the discussion are the board of administrators of the farmer's institute and the state fair advisory board. The activities for which these boards were created have been discontinued. The statutory provisions for the boards should be repealed.

Summary of Recommendations:

The recommendations contained in this report are directed toward establishing for the state the best possible organization for the administration of its affairs. All of the recommendations together constitute a plan of organization. Individually they would have little significance. This summary, therefore, shows no more than the basic outlines of the proposed plan of organization.

All of the recommendations require legislation since the whole report deals with the organization established by the constitution and statutes. An initial plan, with various alternatives, based on statutory changes, only, is presented in the report as is also a long range plan including constitutional amendments where necessary.

To the extent that they lend themselves to summarization the recommendations are:

Recommendations for Statutory Changes:

(1) That a permanent "audit committee of the legislative assembly" be created to provide for continuing contact by the legislative assembly, through the state auditor, with the administration of state affairs by the executive department.

(2) That the board of trustees of the law library be discontinued; and that the library be placed directly under the jurisdiction of the supreme court, or the chief justice.

(3) That the executive department of the state government be reorganized with a structure that will be simple, definite, unified, and integrated, with a logical allocation of functions to the smallest feasible number of agencies, each with a suitable managing authority; and that the organization provide for continuity of operating policy, competent personnel, and adequate safeguards against arbitrary action by administrative employes.

(4) That no state agencies be left with corporate powers, particularly the power to issue bonds, except to the extent necessary to avoid any breach of contract on outstanding bonds.

(5) That the head of each agency in the executive department of the state government, except the lieutenant governor and the state auditor, be placed by law under the supervision of the governor in accordance with the responsibility vested in the governor by the constitution.

(6) That, so far as possible and feasible, all administrative responsibility for the conduct of the work of each state agency be vested in a single administrative officer as the head of such agency.

(7) That, for state agencies where quasi-legislative or quasi-judicial action of major importance is required, a board, preferably of three members serving for relatively long terms, be provided, to be appointed by the governor, except as otherwise specified by the constitution; but that such boards be restricted in their authority to those matters it is essential be dealt with by a board.

(8) That the membership of boards be not representative of the special interests affected by the operations of the agencies the boards serve.

(9) That, wherever feasible, each board be given responsibility for board activity in conjunction with all state agencies operating in one broad related field.

(10) That an executive cabinet be established comprising the administrative heads of the departments recommended later and having as its executive officer a permanent "executive deputy."

(11) That, besides those assigned to the offices of state auditor, lieutenant governor, and governor, and to the proposed executive cabinet, all administrative responsibilities of the executive department be consolidated into (a) not to exceed twenty departments, with (b) not more than six appointed boards of the type previously referred to, (c) such occupational examining boards as may be retained, and (d) the ex officio boards established by the constitution.

(12) That the twenty departments be as follows:

Departments headed by elected officers:

Department of state
Department of law
Department of the treasury

Departments headed by individual officers appointed by the governor and with full responsibility for administering the affairs of the department except to the extent such responsibility is vested in boards by the constitution, or under requirements of federal regulations:

Department of finance
Department of revenue
Department of local government service
Department of commercial supervision
Department of conservation
Department of highways
Department of labor
Department of liquor control
Department of live stock and dairying

(continued on next page)

(12) (Continued)

Department of military affairs
Department of public health
Department of public safety
Department of public service
Department of public welfare
Department of public works

Other departments, as described later:

Department of education
Department of occupational standards

(13) That the department of education be headed by the board of education having two executive officers, namely: president of the University of Montana appointed by the board and in charge of higher education, and superintendent of public instruction in charge of all elementary and secondary education, special schools, and miscellaneous education activities.

(14) That the department of occupational standards embrace the various occupational examining boards and that in it some provision be made for coordinating their work.

(15) That, in addition to the boards established by the constitution, and the occupational examining boards, there be only the following appointed boards:

Unemployment compensation commission
Board of public service
Board of welfare and health
Board of planning and works

(16) That the statutory functions of all existing state agencies in the executive department be transferred to the various agencies listed in previous recommendations; and that, when the functions are so transferred, the existing agencies established by statute and not listed be discontinued.

(17) That, if any of the alternative plans suggested in the report are adopted in lieu of the "preferred" plan, the necessary adjustments be made in earlier recommendations.

(18) That when any remunerative office for which a term is specified is abolished in the course of the reorganization, provision be made for retention of the incumbent in some closely related office without financial loss to him, or for postponement of the effective date of the particular change until the expiration of his term.

Recommendations for Long Range Adoption:

(19) That the lieutenant governor and the state auditor be transferred from the executive to the legislative department by constitutional amendment.

(20) That constitutional restrictions on the maximum number of senators and representatives in the legislative assembly be adopted to prevent future changes in population or increases in the number of counties from bringing about legislative bodies of unwieldy size.

(21) That election of the clerk of the supreme court, provided for in the constitution, be discontinued and that the office be filled by appointment of the court.

(22) That the designation by the constitution of the justices of the supreme court as members of a supervisory board over investments be repealed, since this is an executive and not a judicial function.

(23) That consideration be given to constitutional amendments discontinuing election as the means of selecting the attorney general, the secretary of state, the state treasurer, and the superintendent of public instruction and permitting appointment of these officers by the governor or in such other manner as may be specified by law.

(24) That the constitution be amended to relieve the state examiner of responsibility for the audit of state agencies; and that consideration be given to repealing the whole section establishing the office in order that it may be merged with either the proposed department of finance or revenue.

(25) That the provisions for the board of equalization in its present form be eliminated from the constitution and its functions as a board for the proposed department of revenue be transferred to the proposed board of finance.

(26) That the constitution be amended to discontinue all ex officio boards established by it, except the board of pardons; and that the state auditor be replaced on that board by the director of public welfare or by a member of the supreme court.

(27) That an appointed board of finance be substituted for the ex officio board of examiners and state depository board, to the extent boards are required.

(28) That, as conditions permit, the number of departments be further reduced below the twenty suggested.

SCHEDULE I - LIST OF AGENCIES AND OFFICERS OF THE EXECUTIVE DEPARTMENT OF THE MONTANA STATE GOVERNMENT, SHOWING TYPES AND METHODS OF SELECTION OF THE MANAGING AUTHORITIES; AND INDICATING WHERE PRINCIPAL DISCUSSION OF THE AGENCY OCCURS IN THE BODY OF THIS REPORT

	Reference Number*
A. Officers elected by the people (for terms of four years):	
Governor	3
Lieutenant governor	1
Secretary of state	5, 9
Attorney general	6, 22
State treasurer	7
State auditor	2,11,8
Superintendent of public instruction	13
B. Boards with members elected by the people:	
Board of railroad commissioners of the state of Montana 3 members - overlapping terms of 6 years	22
C. Individual heads or executive officers of agencies appointed by the governor:	
Adjutant general	18
Commissioner of agriculture, labor, and industry	13,15,17,8, 11,20,22
Custodian of records of the Grand Army of the Republic and the United Spanish War Veterans	13
Custodian of the state capitol	8, 24
State engineer	24
State examiner	10,11,2,8
State forester	12
Superintendent of the state insane asylum	23
Commissioner of state lands and investments	12,7
Warden of the state prison	23,21
State purchasing agent	8
President of the Montana state tuberculosis sanitarium	23

*The reference numbers opposite the items in this schedule refer to the numbered sections in the latter part of the main text of this report. Opposite each agency is shown the number, or numbers, of the section in which appears the principal discussion of the disposition of the functions of the agency under the proposed plan of organization. References to alternative suggestions are not uniformly made.

	Reference Number
D. Boards with all members appointed by the governor:	
Montana agricultural conservation board*	13
State board of arbitration and conciliation	15
Montana armory board	24
State athletic commission	21
Board of embalmers and funeral directors of the state of Montana	19
State board of equalization	9
Abstracters board of examiners	19
Board of architectural examiners	19
Board of barber examiners	19
Montana state examining board of beauty culturists*	19
State board of chiropractic examiners	19
State board of dental examiners of the state of Montana*	19
Board of medical examiners	19
Board of examiners for nurses*	19
Montana state board of examiners in optometry	19
State board of osteopathic examiners	19
Board of examiners in photography	19
State board of veterinary medical examiners*	19
State fish and game commission	12
Montana state board of food distributors*	20, 22
Montana grass conservation commission*	12
State board of health of Montana*	20
State highway commission	14, 21
Board of trustees of the historical and miscellaneous library	13
Montana liquor control board	16, 21
Livestock commission	21, 12, 17
Merit system council (not established specifically by law)	8
Oil conservation board of the state of Montana	22, 9
Montana state park commission	12
Montana state board of pharmacy*	19
Unemployment compensation commission of Montana	15
Veterans' memorial fund commission*	24
State board of public welfare	23
Veterans' welfare commission	23

* Governor restricted in appointments to members of, or persons nominated by, private organizations.

	Reference Number
E. Boards with one or more members appointed by the governor and one or more members serving ex officio:	
Montana state commission for the blind	13
State board of chiropody medical examiners*	19
State board of education	13
Executive board of Montana State University	13
Executive board of Montana State College	13
Executive board of Montana School of Mines	13
Executive board of Northern Montana College	13
Executive board of Montana State Normal College	13
Executive board of Eastern Montana State Normal School	13
Executive board of Montana State School for the Deaf and Blind	13
Executive board of Montana State Industrial School	13
Executive board of State Orphans' Home	13
Executive board of Montana State Training School	23
Executive board of State Vocational School for Girls	13
Executive board of Montana State Tuberculosis Sanitarium	23
Montana state board of forestry*	12
State board of hail insurance*	11, 15
Industrial accident board	15, 7, 11, 21
State library extension commission	13
Milk control board	17
State soil conservation committee	13
State water conservation board	24
F. Ex officio boards (boards made up entirely of members serving ex officio and boards designated by separate names in secondary capacities):	
Board of state canvassers	5, 25
Carey land act board	24
State depository board	7
State electrification authority	24
Montana state board of entomology	20
Board of examiners	8, 7, 23
Board of administrators of the farmers' institute	Note C
Furnishing board	8
State board of commissioners for the insane	23
State insurance commission	8
State board of land commissioners	12, 7

* Governor restricted in appointments to members of, or persons nominated by, one or more private organizations.

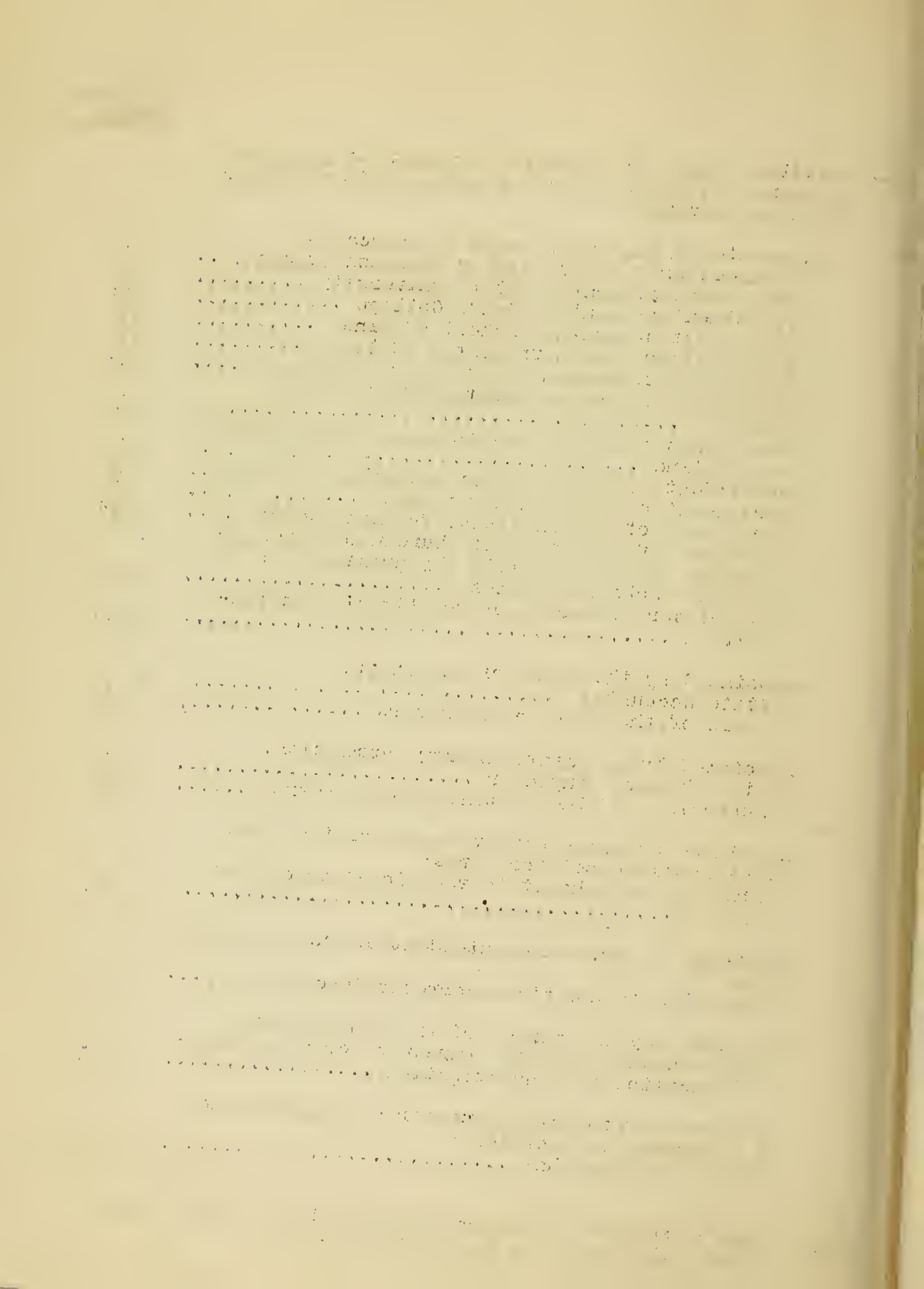
Note C: Repeal; no farmers' institute now.

	Reference Number
F. Ex officio boards (boards made up of members serving ex officio and boards designated in secondary capacities) (continued):	
Board of trustees of the law library	Note A
State board of library examiners	13
Livestock sanitary board	17
Board of pardons	25
State planning board	24
Board of state prison commissioners	23
Public service commission of Montana	22
Science commission of Montana	12
Supervisory board (over investments)	7
State temperance commission	16
Montana trade commission	22
State board of voting machine commissioners	5
G. Boards with some ex officio members and an officer of a private organization designated by law as members:	
State board of eugenics	23
Stallion registration board	17
H. Boards with some members appointed by the governor and an officer of a private organization designated by law as members:	
Board of managers of the Montana soldiers' home	23
I. Unclassified boards with members selected in different combinations of ways from those previously listed:	
State board of educational examiners - part ex officio; part selected by state board of education	13
Board of examiners in accountancy - appointed by state board of education	19
State fair advisory board - members appointed by boards of county commissioners	Note B
Retirement board of the teachers' retirement system - part ex officio; part selected by state board of education	13, 7

Note A: See "Judicial Department."
Note B: Repeal; since there is no longer a state fair.

	Reference Number
J. Individual heads or executive officers of agencies appointed by state boards or state officers other than the governor:	
Appointed by the state board of education:	
Chancellor of University of Montana (vacant) ..	13
President of Montana State University	13
President of Montana State College	13
President of Montana School of Mines	13
President of Northern Montana College	13
President of Montana State Normal College	13
President of Eastern Montana State Normal School	13
President of Montana State School for the Deaf and Blind	13
President of Montana State Industrial School ..	13
President of State Orphans' Home	13
President of Montana State Training School	23
Director of Montana state bureau of mines and geology (position filled by president of Montana School of Mines)	13
Supervisor of bureau of vocational rehabilitation	13
Appointed by the board of examiners:	
State accountant	8, 2
Clerk of the board of examiners	8
Appointed by the state highway commission:	
State highway engineer	14
Supervisor of the Montana highway patrol	21
Appointed by the executive board of the state vocational school for girls:	
Principal of the state vocational school for girls	13
Appointed by the superintendent of public instruction:	
Director of the state correspondence school ...	13
Appointed by the warden of the penitentiary:	
Superintendent of the bureau of criminal identification and investigation	21
Appointed by the state auditor and commissioner of insurance, ex officio:	
State fire marshal	11, 21, 15

Note: Other executive officers appointed by the boards under which they work have been omitted.



K. Ex officio designations of state officers:

Title	Filled Ex Officio By	Reference Number
Superintendent of banks	State examiner	11
State entomologist	Entomologist of the Montana State College	13
Farm storage commissioner	Commissioner of agriculture, labor, and industry	11
Commissioner of insurance	State auditor	11, 8
Investment commissioner	State auditor	11
Real estate commissioner	Commissioner of agriculture, labor, and industry	11
General recorder of marks and brands	Secretary of livestock commission	21
Registrar of motor vehicles	Warden of state penitentiary	21
State sealer of weights and measures	Commissioner of agriculture, labor, and industry	22, 21

STATE OF MONTANA

GOVERNOR'S COMMITTEE ON REORGANIZATION

AND ECONOMY

FINANCIAL ADMINISTRATION

(Report No. 48)

December 12, 1941

Prepared by

Griffenhagen & Associates

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REPORT ON

FINANCIAL ADMINISTRATION

Introduction:

This report deals with the present and proposed financial administration of the state government and with the organization and procedures involved.

To supplement the material in the main text of the report, a series of appendixes numbered from I to VII are added. They give the same type of general descriptive material as to each of the existing fiscal agencies that is to be found in the several "agency" reports of this series dealing with other units of the state government.

Also, as Exhibit A, the draft of a suggested fiscal code is presented in conjunction with this report. This draft of a proposed fiscal code is included on the assumption that it will be desired to enact legislation at the appropriate time to put into effect as much of the proposed organization and of the accompanying procedures set forth in this report as can be adopted without constitutional amendment.

Any criticisms that may be expressed or implied in the following pages are in no way to be taken as suggesting mismanagement on the part of the stete officers engaged in financial administration. On the contrary it has been found that these officers have not only performed their regular duties remarkably well but have displayed considerable initiative in meeting and solving many problems confronting them by the confused and poorly coordinated statutes relating to the fiscal affairs of the state. The recommendations put forward herein are designed to provide the machinery to facilitate the carrying out of sound policies such as the state's officers have been trying, under great handicaps, to apply.

Significance of Financial Administration:

The term "financial administration" is used in this report in a broad sense to include all the processes involved in collecting, budgeting, appropriating, and spending public money; in accounting for the assets, the liabilities, and the financial transactions of the state government; and in reporting upon income and expenditures, receipts and disbursements, and the condition of funds and appropriations. Tax administration is not included within the scope of this report.

Accounting, auditing, budgeting, appropriating, financial reporting, and all methods of expenditure control, are only the tools for financial administration, which itself is one of the most important managerial functions of government.

No activity of government can be carried on without funds. Financial administration embraces the problems involved in providing, allotting, and using them.

In weighing the relative importance of the various functions and activities of government, in an endeavor to work out equitable appropriations and allocations of funds, vital questions affecting to a greater or less degree every unit of the government service, and the welfare of every citizen of the state, are involved. These questions, while they resolve themselves into the determination of how much money shall be appropriated to each department, board, and commission, really have to do with how much money shall be spent for the

protection of life and property; how much for the relief of the afflicted and the needy; how much for the education of children and adults; how much for better highways; and how much for each other activity of government.

Financial administration thus touches the very foundations of the social and economic welfare of the people. In it is bound up the control of all government activities.

It is also concerned with the elimination of waste and extravagance and with the skillful handling of funds so as to take full advantage of both the earning power and the purchasing power of the dollar. It should insure that the expenditure of each dollar of public moneys secures even greater results than would a similar expenditure privately made. Through putting every dollar to work and realizing on its full value, effective financial administration can reduce the total number of dollars to be extracted from the taxpayers. It can thus insure true economy and efficiency.

Need for Executive Control of the State's Finances:

This report contemplates the acceptance of certain basic principles as underlying the effective operation of a sound plan of financial administration. Many, in fact most, of these principles are now generally recognized and accepted in the administration of the state's affairs and would not need to be listed here, although later in this report certain suggestions are made which are designed to improve their application. Some reference does, however, need to be made to a few principles that have been overlooked in the development of the present organization and procedures.

It is the proper responsibility of the executive branch of the government to develop a complete financial plan for each fiscal year, taking full account of such questions as what moneys are to be available, what services need to be rendered, and what the cost of such services will be, and also all other factors that may influence the plan. Such a plan, when prepared in form for easy interpretation, should be submitted to the legislative assembly for approval, subject to whatever modifications it may choose to make.

The action of the legislative assembly takes the form of necessary revenue measures and an appropriation act. It is in connection with the interpretation of the meaning of legislative appropriations that the need for a change in the popular view in the state is most urgent. Without such change, no plan of financial administration for the management of the state's finances can operate effectively in times of stress.

Appropriations should be regarded as the maximum limits of authorizations to spend and not as mandates to spend the full amounts indicated. The governor, as the head of the executive branch, acting through an appropriate administrative agency, must be given authority to hold expenditures within the maximums set by the legislative assembly. He should not only be required to prevent the expenditure of moneys in excess of appropriations, but should also be authorized to stop any unnecessary or extravagant expenditures, particularly where unexpected changes occur in the needs of an agency; any expenditures for purposes not authorized by legislative enactments; and also any expenditures in excess of cash funds available for the purposes of the expenditure.

The principal point of divergence from the present theory and practice would be the delegation by the legislative assembly to the appropriate fiscal officer of the executive branch the authority thus to curtail expenditures under

appropriations when conditions justified such curtailment. Heretofore, this right of curtailment has been generally regarded as non-existent except as the head of the particular agency to which an appropriation was made might see fit to expend amounts less than the appropriation.

The present theory has developed from the tendency to regard the executive branch of the government, not as a single organization unit headed by the governor as contemplated by the constitution, but instead as an aggregation of loosely associated independent agencies. This subject is further discussed in the report of this series dealing with the general organization structure of state government.

As an outgrowth of this erroneous conception, there has been no discretion left to the governor or any other administrative officer in the matter of adjusting the financial plans of the state as a whole to conform to changing conditions, and no adequate provision has been made for meeting emergency situations.

Besides the right to curtail expenditures, provision needs to be made for some means whereby emergencies and unforeseen contingencies can be met during the long interval between legislative sessions. Subject to adequate safeguards and within specified limits, the governor, acting through the proper fiscal officers, should be given authority to make adjustments and transfers in appropriations, within the totals authorized by the legislative assembly, when it becomes essential in the interests of the public welfare.

One other principle that needs to be recognized is that the legislative assembly should be informed by an independent post-auditing official of the manner in which the financial plans it approves are being carried out.

Outline of Existing Organization for Financial Administration:

There is actually no provision in the organization structure of the state government for any central fiscal agency or agencies responsible for active management or administration of all of the financial affairs of the state, although several attempts have been made by the legislative assembly to make some such provision through such measures as the budget act, the act creating the purchasing department, and the legislation dealing with the fiscal functions of the state board of examiners.

In spite of this legislation, it remains a fact that after the appropriation acts are passed the various spending agencies are left to handle financial matters very much as they please and to use the appropriations as if they were bank accounts.

In theory, the state board of examiners is the chief financial agency of the state government with responsibilities involving preaudit, recording, accounting, budgeting, and approval of claims for payment. The state board of examiners has a small staff which does certain work in the preaudit, recording, and approval of claims. The state accountant under the direction of the board furnishes the staff services necessary for budget preparation and accounting.

The disbursement function is divided between the state auditor and the state treasurer and both find it necessary to maintain rather extensive accounting records, some of which are duplications of similar records maintained in other offices.

The state auditor is charged with the responsibility for current audit of receipts and disbursements, while the state examiner and the state accountant

There is a state purchasing department to discharge the purchasing function. Finally, treasury administration is vested in the state treasurer, the state depository board, and the state board of land commissioners acting in conjunction with the department of state lands and investments.

The organization and functions of each of these agencies, except the state board of land commissioners and the department of state lands and investments, are described in more detail in the appendixes to this report.

Weaknesses of the Existing Organization for Financial Administration:

Principles of Organization for Fiscal Management: Certain established principles of good organization relate particularly to the organization structure of, and the relationships among, the state fiscal office. Without their application, no fully effective plan of financial administration can be established. The most important of these principles may be stated briefly as follows:

The plan of organization should distinguish among (a) policy-forming or quasi-judicial functions, (b) purely administrative and service functions, and (c) independent postauditing functions, with the appropriate assignment of each of these groups of functions to the type of agency best adapted to exercise it.

The organization should make adequate provision for exercise of the several functions of financial administration, with a clear-cut assignment of responsibility for each such function.

The plan of organization should provide for the coordination of all the administrative functions in the financial management of the state's affairs through a single agency under a single executive officer, to permit the integration of financial procedures.

The application of each of these principles and the weaknesses of the present organization for financial administration brought about by failure to adhere to such principles are discussed in the paragraphs that follow.

Present Failure to Distinguish Among Different Kinds of Functions: Under the traditional division of powers among the legislative, executive, and judicial branches, the distinctions referred to in the principles listed in the foregoing section can and should be logically applied.

The legislative branch should determine what services the government shall render to the people and how extensive each service shall be; should authorize all expenditures for the government; and should provide the means for meeting them.

The executive branch of the government should be responsible for carrying out the plans and policies of the legislature, as expressed in the appropriation and revenue acts and in the grants of power to the several departments.

The judicial branch is not routinely involved in fiscal matters.

The governor, as the head of the executive branch, responsible for carrying out the policies of the legislature and administering the affairs of the state, must necessarily have the facilities at his disposal to administer the finances of the state, as well as other functions. In this connection, it is essential that he should have a reasonable measure of control over the fiscal agencies which do the detailed work in connection with handling the state's finances.

The legislature, on the other hand, should have some means of insuring that the administration carries out its policies and plans and should be placed in possession of the facts as to wherein the administration fails to carry out these policies and plans or fails to provide efficient and economical management. This insurance can best be provided by requiring that the independent postauditing be done by a qualified officer responsible to the legislative assembly, provided adequate facilities are set up through a legislative committee, or committees, for the analysis, review, and interpretation of the findings and conclusions of the postauditing officer.

These principles have not been followed in the establishment of the organization for financial administration in the state government. The governor's responsibility for administrative matters is shared with other members of the board of examiners and with elected state fiscal officers. The postauditing is done by two officers, one of whom, the state accountant, is under the control of the board of examiners and the governor, while the other, the state examiner, is responsible directly to the governor. Thus, what postauditing is done is not independent postauditing; instead, responsibility for it is entangled with the responsibility for authorizing the transactions that require audit.

Not only are the administrative functions of financial management divided among various officers not directly under the control of the governor, but there is insufficient recognition of what types of functions should be assigned to a single executive officer and what types should be assigned to a board.

It is highly desirable that the responsibility for quasi-legislative and quasi-judicial functions should be vested in a board whose members serve for overlapping terms to insure against abrupt changes in policy. Such a board should operate in connection with the general management of such of the state's financial affairs as involve the determination of questions of financial policy, the hearing and disposal of applications for additions to specific appropriations from an emergency or contingent appropriation, the hearing and determination of disputed claims for services rendered or supplies and materials furnished the state, the hearing and determination of claims for refunds of erroneous payments to the state, the consideration and approval of rules and regulations, and the hearing and determination of appeals from the acts or decisions of the administrative authority. Matters such as these require mature group judgment more than they require quick action and clear-cut responsibility.

On the other hand, purely administrative work does require quick action and clear-cut responsibility, elements that cannot be consistently secured in board administration. Such activities should be carried on under the supervision of a qualified and capable executive officer. The conduct of purely administrative functions by a board, unless one member so completely dominates the board as to be the de facto administrator, is almost always charachterized by procrastination, compromise, shifting of responsibility, and lack of unity and consistency in procedures. Ex-officio boards have the same defects and are even less satisfactory than other boards for administration matters because the members of such boards are chosen for other aptitudes than those required for the business of such boards. Responsibility for the purely administrative fiscal functions should be vested in a signle, qualified, and competent administrator responsible to the chief executive authority of the state.

Few, if any, fiscal activities calling for board action have been assigned in Montana to single administrative officers, but on the contrary many routine financial procedures which do not require board action are now routed through the board of examiners.

Lack of Coordination of the Processes of Financial Administration: As is illustrated by the statements of the functions of the several fiscal agencies contained in the appendixes to this report, responsibility for the fiscal functions of the state government is now diffused among a number of separate agencies with little or no regard for the relationships of the various activities or for any attempt at integration. One of the principal defects of the present organization for financial administration is the complete lack of any coordinating authority qualified to design, install, and supervise the operation of a unified system under which all budgeting, purchasing, accounting, auditing, and fiscal reporting procedures would be integrated.

Each of the central fiscal agencies and each spending agency, except certain institutions, proceeds in these matters according to the ideas of its management, regardless of the requirements of other units. Both the state examiner and the state accountant have been given statutory authority to prescribe the accounting methods and procedures for the state institutions. In actual practice the state accountant performs this function. There is almost no uniformity in forms, records, or procedures among the other agencies. This has resulted in the existing confusion, not only as to responsibility and authority, but also as to the true financial condition and the true results of the operations of the state government. It is also responsible for the duplication of effort that exists.

Effective financial administration is largely dependent upon the coordination and correlation of the various processes involved. There should be well systematized the adequate budgeting, accounting, purchasing, preauditing, and fiscal reporting, all woven together in a unified and integrated system in charge of an officer with authority to function as the chief fiscal officer of the state.

Such an officer should not only be thoroughly familiar with the principles and practices of successful office management, budgeting, purchasing, accounting, and auditing, but should have a thorough grasp of the principles of public administration and finance, and a real appreciation of the financial problems confronting the legislature, the chief executive, and the spending agencies, and, therefore, the kind of financial data needed. Above all, he should have the ability to prepare reports on the financial condition and operations of the state government to convey all the essential facts in attractive and reliable form that the average layman can understand.

The need for this sort of coordination is not now met in the state organization. The board of examiners more nearly has the authority to meet it than any other agency. Since it is a board, this agency is poorly adapted to carry on such purely administrative functions as those outlined. As an ex-officio board, its members have far too many other duties to permit them to carry on any extensive activities in connection with any such responsibilities the board may have.

Criticism of the Present Provisions for the Exercise of Fiscal Functions: The details of the present and proposed fiscal systems are discussed elsewhere in this report. At this point, however, it seems necessary to comment briefly on how certain functions are assigned to the several agencies engaged in the administration of fiscal affairs.

The state board of examiners is charged by law with many administrative functions involving budgeting, preaudit of obligations and disbursements, approval of claims against the state, purchasing, and the establishment of auxiliary controls over the financial affairs of the state by means of rules, regulations, or statements of policy. In order to carry out these duties the board

has found it necessary to set up under its own jurisdiction an administrative organization headed by the clerk to the board of examiners. The work performed by this organization relates primarily to the duties other than budgeting. The responsibility for developing the budget proposal has been placed by the board with the state accountant which necessitates that he maintain a set of accounting records.

The accounting records maintained by the state auditor and the state accountant are not direct duplications in composition but they do show a direct duplication in responsibility for the maintenance of accounting records. The state auditor maintains records relative to the distribution of receipts according to funds as does the state treasurer and the state accountant. The state auditor maintains records relative to the distribution of disbursements according to funds and appropriations. The state treasurer maintains records relative to the distribution of disbursements according to funds. The state accountant maintains records of disbursements according to funds and appropriations. It is to be understood that each of these officers maintains his records for different reasons, but under a unified system only one set of records would need to be maintained to meet all requirements.

All the records now maintained by the central fiscal agencies are maintained upon the cash basis, as opposed to the accrual basis. There is no provision for central revenue and expenditure accounting under which all the accrued revenues of any period, including delinquencies, and all the expenditures of any period, including claims payable, could be currently analyzed, classified, and systematically recorded as the basis for significant operating reports. Except for cash and appropriations no general control accounts are maintained for the state as a whole, although the state accountant does maintain a set of accounts reveeling the distribution of disbursements according to object of expenditure to assist him in the compilation of the budget document.

Under the statutes the state board of examiners, the state auditor, and the state purchasing agent have preaudit functions. Nevertheless, there is no provision for systematic preauditing in the full sense of the term.. Except in very minor incidences there is no attempt made to control the incurring of obligations and absolutely no attempt made to record obligations at the time incurred. No rules and regulations have been promulgated to govern the conduct of the preaudit, and to insure that all points that should receive attention in connection with each claim are actually covered.

As there is no control over the incurring of the obligation, there is no actual control, accounting or otherwise, over the outstanding obligations and, consequently, there is no means of finding out how much the state owes on outstanding accounts at any time.

There is no satisfactory provision for current audit control of receipts. The state treasurer and state auditor keep sets of accounts which are to a large extent just duplicates. This is done under the theory of "checks and balances." The duplication fails to afford any check because the treasurer takes the money in and subsequently advises the auditor, through the medium of receipts, of how much he has received and of the funds to be credited. In other words, the treasurer virtually tells the auditor what charges to make against the treasury and this is the only source of information the auditor has as no independent reports have been provided as a basis for his entries.

In order to provide for the most effective kind of fiscal procedures and to avoid duplications in effort and of forms and records, it is essential

that all the procedures relating to budgeting, purchasing, preeuditing, post-auditing, personnel administration, property control, and accounting be integrated. Without integration the fiscal procedures of the state have little chance of adequately meeting the requirements. The conflicts and duplications in duties and responsibilities that arise between the various state offices charged with the administration of the various financial functions unless these functions are assigned in conformity with a comprehensive, workable plan of operation are an effective bar to efficient operation.

Proposed Plan of Organization for Financial Administration:

Constitutional Barriers to Sound Organization: There are relatively few constitutional barriers to a sound organization for financial administration, but there are many statutory barriers.

Chief among the few constitutional barriers are the provisions which establish the state board of examiners and prescribe its duties with reference to fiscal affairs. It has previously been pointed out that the assignment of administrative functions to a board, especially an ex-officio board, is not conducive to effective management.

The constitution establishes the office of state auditor, but under a general provision applicable to the auditor and other state elected officers he is directed to "perform such duties as are prescribed in this constitution and by the laws of this state." The constitution prescribes no specific duties except membership on the board of pardons and the state depository board. Under an ideal plan of state organization, the membership of the auditor on these boards would be discontinued.

The constitution also establishes the office of treasurer and provides certain duties. None of these, except the unusual and inappropriate requirement that he shall approve all contracts for stationery, printing, paper, fuel, light, etc., are incompatible with a sound plan of organization.

The constitution provides for the appointment of the state examiner by the governor with the approval of the senate. It also prescribes as a part of the duties of the office, the postauditing of the operations of the state treasurer, the supreme court clerk, and district court clerks. The constitutional provision that the postauditing of the fiscal affairs of the state shall be done by the examiner is a barrier to sound organization.

There are two other boards established by the constitution for the exercise of fiscal functions. These boards are the state depository board (already mentioned) and the supervisory board over investments, of which the justices of the supreme court are members. Each of these boards is composed of ex-officio members. The duties and responsibilities discharged by them could better be vested in other state agencies, but their temporary continuation on the present basis would not seriously interfere with the establishment of an effective organization for financial administration.

Statutory Barriers to Sound Organization: The statutory barriers to a sound organization for financial administration are numerous - in fact, too numerous to be listed here. It will be necessary to draft a repealer in general or specific terms of the confliction of provisions at such time as it is decided to adopt legislation designed to give the state an effective organization for, and system of, financial administration.

The duties of all of the fiscal agencies are prescribed by law and, in establishing a new plan of organization for financial administration, probably the simplest plan would be to prescribe the duties of the fiscal agencies and repeal all existing laws in conflict with the new plan. Necessarily any change in organization would also need to be accompanied by changes in procedures, many of which are now prescribed by statute. The same type of revision in the statutory provisions covering procedures would be necessary as that suggested with reference to organization.

Proposed Preliminary Steps Pending Statutory and Constitutional Changes: Two major steps can be taken in securing a better fiscal organization and system without waiting for statutory or constitutional changes. The first is the establishment of a central accounting organization and system under the state accountant, and the second is the adoption of the requirement that all claims presented to the state board of examiners for passage must have had the approval of the state accountant as to the availability of funds and as to the propriety of purpose before the obligations represented by such claims were incurred.

The two steps, if taken, not only will represent a distinct advance in the management of the fiscal affairs of the state, but also will provide the basic experience and information necessary for developing an adequate system of fiscal administration at such time as statutory and constitutional changes may be made. By the second of these steps, the state will establish a measure of control over the incurring of obligations which has in the past given rise to deficiency appropriations and the condition whereby the expenditures of one biennium are charged against the appropriation of the next.

In delegating to the state accountant the duty and responsibility for the developing of an accounting system it is proposed that he be required to include provisions for:

(1) Maintenance of all fiscal records now required by law to be maintained by the state board of examiners and the state accountant.

(2) Easy compilation of all financial reports now required by statute of the state board of examiners and the state accountant as well as such other reports as will be found necessary for an effective control over the financial affairs of the state government within the limits permitted by the statutes.

(3) Distribution of expenditures by appropriations, funds, and objects of expenditure.

(4) Distribution of receipts by funds, sources of revenue, and collecting agencies.

(5) General controlling proprietary and operating accounts for each fund under the control of the state board of examiners.

(6) Budgetary control accounts insofar as such accounts are permitted to be effective under the present statutes.

(7) Encumbering of fund and appropriation balances with the amounts of approved and anticipated expenditures and clearing such encumbrances from the balances at the time the claims are presented for payment and are charged to the fund and appropriation.

(8) Ascertaining the amount of accounts payable at any time during a fiscal period for any fund under the control of the state board of examiners.

As part of the proposal that the state board of examiners adopt what is commonly called a system of encumbrances and preaudit it is contemplated that they shall require:

(1) Clearance of all purchase orders through the office of the state accountant for his approval as to the availability of funds and as to the propriety of the contemplated purchase before issuance to the vendor. The procedure should be such, however, as to make adequate and practical provision for emergency purchases and other operating problems faced by the institutions and other agencies.

(2) Clearance of all other contemplated expenditures through the office of the state accountant for his approval as to the availability of funds and as to the propriety of the expenditures, prior to the incurring of any obligations for such expenditures.

(3) Submission of all claims to the state accountant for checking and for clearance of the encumbrances before the claims go to the state board of examiners.

(4) Certification by the state accountant to the effect that the above-mentioned procedures had been carried out on each claim presented to the state board of examiners for passage.

In order to make these improvements in procedure possible it will be necessary for the state board of examiners to make additional staff, equipment, and floor space available to the state accountant. The staff and most of the equipment could be made available by transferring the staff and equipment now assigned to the clerk of the board of examiners and used in the checking and recording of claims presented to the board. It is anticipated that this transfer would provide ample staff to enable the state accountant to carry out his part of the plan. The matter of floor space would have to be settled by a reallocation of the available space in the capitol building.

Proposed Plan Requiring Statutory Changes Only: As the second stage in the adoption of an organization that would administer a complete and modern system, it is proposed that a number of administrative functions necessary to financial control and certain related staff services be brought together in a department of finance headed by, say, a director of finance appointed by, and responsible to, the governor. Specifically, the proposed department would have the following functions:

(1) Budgeting, as a staff service to the governor.

(2) Accounting, including the prescribing of the accounting procedures for all state agencies, and fiscal reporting.

(3) Current auditing, embracing the preaudit of expenditures; current audit control of cash, cash receipts, and receivables; and control over the incurring of obligations.

(4) Issuance of warrants.

(5) Purchasing and property control.

(6) Central office services, including central mail and messenger service.

(7) Perhaps also certain functions relating to personnel administration such as classification, pay standardizetion, payroll administretion, and possibly recruiting.

Eventually quasi-legislative and quasi-judicial functions might be vested in a "board of finance" composed of three members eppointed by the governor for, say, six-year overlapping terms which would constitute a part of the organization of the department. But, while the state board of examiners, creeted by the constitution, is in existence, it should act as a "board of finance".

It is recommended that postaudit functions relative to state agencies be vested in the state auditor in order to secure the advantages of having this function performed by an officer independent of the authority responsible for the administration of the affairs of the state. The postaudit function relative to local governmental units would continue to be administered by the state examiner as provided by the constitution.

This second stage, as broadly outlined, would require extensive changes in the present statutes. These statutory changes are not listed here in detail by section and sub-section, but they should include:

(1) Enactment of legislation providing for a comprehensive fiscal code.

(2) The establishment of the department of finance with authority to exercise all the functions listed earlier in this section.

(3) Repeal of the present budget act and rewriting of a budget act as a part of the fiscal code, which would provide means and methods of effective budget administration not now covered.

(4) Repeal or revision of the present law relative to the purchasing department in order (a) to bring that agency under the control of the department of finance as a unit of the department, (b) to change the method of appointing the purchasing agent, and (c) to remove the function of preaudit now performed by the purchasing agent.

Revision of the many confusing and contradictory sections of the statutes relating to the approval of contracts and to such matters as public printing. The control over these matters would be vested in the department of finance by the terms of the fiscal code.

(5) Elimination of all statutory provisions which give the state board of examiners authority and duties relating to the financial affairs of the state, not required by the constitution, and transfer of these functions to the department of finance.

(6) Elimination, insofar as is possible by legislative action, of all provisions which give the state auditor any authority or duties relating to the day to day operation of the financial affairs of the state.

(7) Elimination of all statutory provisions which give the state examiner postaudit functions relating to state agencies.

(8) Enactment of legislation which will assign to the state auditor all postaudit functions relating to state agencies.

(9) Establishment of a permanent audit committee of the legislative assembly to review reports of the auditor.

(10) Elimination of the office of state accountant and all the functions now vested by statute in that office.

(11) Enactment of legislation extending the amount of control exercised by the state government over the fiscal affairs of local governmental units and assigning the administration of such control to the state examiner.

(12) Such revision of provisions of the statutes as is necessary to bring about a logical and coordinated fund structure within the fiscal code.

The fiscal code should prescribe the form of the appropriation act.

A suggested draft of such a fiscal code as is proposed is attached to this report as Exhibit A.

Proposed Plan Requiring Constitutional Changes: It is proposed, as a final stage in securing an effective organization for financial administration, that certain constitutional provisions be eliminated or changed by amendment. After such changes in the constitution have been made it will be necessary to take certain legislative action to bring the fiscal code in line with the constitution as changed.

Six of the constitutional changes proposed are:

(1) Elimination of the state board of examiners. (The director of finance and a state board of finance would take over its functions.)

(2) Elimination of the state board of land commissioners. (Its investment functions would be assigned to the board of finance and the treasurer.)

(3) Elimination of the state depository board. (Its functions also would be taken over by the board of finance.)

(4) Elimination of the supervisory investment board.

(5) Discontinuation of the membership of the auditor on the board of pardons.

(6) Elimination of the requirement of the approval on all contracts by the governor and the treasurer.

Inasmuch as it is suggested elsewhere in this report, that the auditor report to the legislative assembly, there would be sound reason for changing the method of selecting the auditor. It would be preferable for the auditor to be selected by the legislative assembly as its auditing officer, rather than to be elected by popular vote. However, the difficulty involved in securing the amendment of the constitution to permit this change may well be a barrier too serious to be crossed in the face of the relatively small advantage to be gained by the change and, in the opinion of some authorities, the advantage is doubtful.

If it is found to be necessary, which is improbable, there should be a further amendment clarifying the authority of the legislative assembly to complete the revision of the functions of the auditor along the lines indicated in connection with the proposed statutory changes.

The desirability of maintaining the office of state examiner as a separate agency for auditing and supervision of local government accounts is open to serious question. It would be better to have this work performed as a part of the work of some other agency. The situation here with reference to a change is somewhat the same as that discussed with reference to the auditor, except that the state examiner is an appointed officer and, as such, there would be less difficulty in securing the elimination of the constitutional provision establishing the office. But regardless of what may be done with reference to the status of the office of state examiner, it is important that the constitution be amended to eliminate the requirement that the examiner audit the accounts of the state treasurer and the supreme court clerk. If this is done it would be desirable, and possibly just as easy, to repeal the whole section. (Art.VII, sec. 8)

If it should be decided to eliminate this office as a separate agency, the responsibility for auditing and accounting service for local governments might be assigned either to the proposed department of finance or to the department of revenue proposed in the report of this series on the general organization structure of the state government. The proposed department of revenue would have more inherent interest in the affairs of local governments because of its responsibilities with reference to tax collections by county officers, but the proposed department of finance would be more likely to have employes qualified to design and install local government accounts. It is probable that, as a practical matter, the department of finance would, therefore, be the agency best able to take the responsibility for this work.

Outline of Final Plan: The total effect of all the suggested changes in the statutes and constitution would be to provide for the elimination of some existing agencies and for the creation or retention of other agencies, and would result in a plan of organization that may be described in outline as follows:

Office of the state auditor, with responsibility for postauditing of state government accounts, but without any administrative responsibility for current day-to-day fiscal transactions.

Office of the state treasurer (or department of the treasury) with only minor changes in functions.

Department of finance with broad functions of fiscal management and control, and with responsibility for the various routine procedures involved in the handling of fiscal transactions.

Department (or division) of local government service with the functions of auditing local government accounts and rendering counsel and assistance to the local governments in fiscal matters.

Each of these agencies and its functions is discussed further in subsequent sections of this report.

It can be noted that the plan for an effective organization for financial administration as presented in the foregoing pages involves step by step progress from one phase to another. Each step is so arranged that the subject matter covered would not be a duplication, but rather an extension, of the subject matter of the step which preceded it in the plan. In this way a violent upheaval in the administration of the state's financial affairs would be avoided and the organization would be enabled to develop and establish procedures concerning one phase before it was necessary to work out the detailed plans and procedures under the next.

It would be desirable for the board of examiners and the state accountant to put the first of the three steps into effect as of the beginning of the next fiscal year on July 1, 1942.

The complete adoption of the plans as outlined would require the transfer of staff and equipment, the reallocation of office space, and the reassignment of duties to various individuals at each step of the adoption. It is possible that these transfers and reassignments would require salary changes in some specific cases.

The adoption of each successive step is dependent upon the adoption of the preceding step but once one of the steps is adopted it is complete within itself for an operation that would render more effective the administration of the fiscal affairs of the state.

Office of the State Auditor Under the Proposed Plan:

The office of the state auditor, under the proposed organization, would have functions as follows:

Auditing the accounts of all agencies and the general accounts of the state, but not those of local governments and local government offices except as to the accountability for money of the state.

Investigating the means provided for accounting for, controlling, and insuring the safe custody of all money and other property of the state, and verifying the existence and condition of such money and other property charged to, or held in the custody of, any agency.

Auditing the statements of financial condition and operations of the government of the state, examining the estimates of resources available for appropriation and the estimates of receipts, as prepared for inclusion in each biennial budget report, and certifying in writing the results of such audits and examinations with such comments as may be deemed necessary for the information and guidance of the legislative assembly. The certificate and comments of the auditor of the state should be included with the statements and estimates as presented in the budget report.

Laying the facts in writing, without delay, before the governor, each member of the suggested audit committee of the legislative assembly, and the director of finance, if at any time the auditor should discover any unauthorized, illegal, or otherwise irregular or unsafe handling or expenditure of state moneys or other improper practice of financial administration, or evidence that any such irregular or unsafe handling, expenditure, or practice is contemplated; or if, during the conduct of any audit or investigation of an agency, the auditor is obstructed in the performance of his duties.

In the case of any audit or investigation in connection with which the office of the auditor deems it necessary to obtain the testimony of witnesses, under oath, on any matter or thing pertinent to the subject matter of such audit or investigation, forthwith reporting the facts in writing to each member of the suggested audit committee of the legisletive assembly, and requesting that such committee provide for and conduct the necessary hearing.

Assisting the audit committee of the legislative assembly at hearings conducted by such committee, and cooperating with the committee in preparation of the committee's report to the legislative assembly.

The present functions of the state auditor as commissioner of insurance and investment commissioner would be transferred to another state agency as discussed in the report of this series on the general organization structure of the state government.

In order to provide contact by the legislative assembly, through the state auditor, with the administration of the affairs of the state by the executive branch and in order to insure that the state auditor's reports shall receive the attention they merit, it is recommended that a joint audit committee of the legislative assembly be established. Such a committee should have representation from both the house and the senate and should have not more than five members. It should be bipartisan and should function, not only at legislative sessions, but also in the interim between sessions. It should have such authority as the right to compel the attendance of witnesses.

The postaudit is the typical kind of periodic audit of past transactions, which is now generally held to be largely ineffective except as auxiliary to preaudit. It cannot prevent irregularities, though it may discover them. As a means of detecting fraud, it may be fairly satisfactory, even though in this, it often does not succeed. It does not result in preventing losses or bad financial practices. It is of value, however, where a unified system of accounting and a good preaudit are in effect, in stimulating spending agencies to adhere to prescribed regulations and in enforcing accountability for funds handled by the several agencies and for portable property.

At present the postaudit function is vested in the state examiner and the state accountant. Both of these agencies spend considerable time in the examination of the fiscal affairs of the other state agencies. The state accountant is charged with the postaudit of the state institutions and the state examiner is charged with the examination of all state agencies. The apparent duplication is overcome by the simple device of appointing the state accountant a deputy state examiner.

The regular examinations made by the state examiner of the financial transactions of the state are little more than a check on the accounting for the cash received and disbursed. No inquiry as to the propriety of the disbursements or the effectiveness of the collecting procedures is made. No expenditure of the state government is audited after a warrant has been issued for its payment. Special examinations of specific agencies may be made that do cover these points, but the state examiner is charged with the examination of the fiscal affairs of the local governmental units and this work would prevent his making a more detailed audit of the central fiscal agencies with his present force.

Neither of the officers now responsible for postauditing is independent of the administrative authority of the state in that the state examiner is appointed by the governor and the state accountant is appointed by the state board of examiners. As a result of this condition there is no adequate independent postaudit made of the fiscal affairs of the state government. It is altogether understandable that an officer appointed by another officer or by a board would be reluctant about, and in the final analysis prevented from, inquiring into the propriety of the actions of such appointing authority.

The proposed plan would correct these objections to the present provisions for postauditing.

Assisting the audit committee of the legislative assembly at hearings conducted by such committee, and cooperating with the committee in preparation of the committee's report to the legislative assembly.

The present functions of the state auditor as commissioner of insurance and investment commissioner would be transferred to another state agency as discussed in the report of this series on the general organization structure of the state government.

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The proposed plan would correct these objections to the present provisions for postauditing.

Office of the State Treasurer Under the Proposed Plan:

As is suggested in the report of this series dealing with the general state organization, the office of the state treasurer might well be designated as the department of the treasury. For ease of reference it is so referred to here.

The functions of this department would comprise all administrative functions of the state in relation to receiving, safekeeping, and accounting for, cash and securities, and the depositing, disbursing, and investing of cash.

The department would have custody of all moneys and securities belonging to the state or for which the state is responsible; would receive, direct, or through designated state depositories, all such moneys and securities; pay out such moneys on warrants of the department of finance, which would be countersigned by the treasurer and issued as checks on designated depository banks; keep accounts and records of the cash resources of the state but only to the extent necessary to account for the cash, bank deposits, and investments of each fund; and be the investing agency of the state and, as such, manage all deposits, and investments and collect all interest on investments, and principal of matured investments. It would manage the deposits and investments of funds so as to secure the highest aggregate returns consistent with current needs for cash, at all times.

The department would be responsible for the safekeeping of all bonds and other securities, representing investments of state moneys and moneys for which the state is responsible, for clipping and collecting all coupons on bonds owned or held by the state, for collecting the principal of matured bonds or other obligations held by the state at their maturity, for the sale or exchange of bonds held by the state, for all sales and redemptions of state bonds, and for all purchases of bonds and other securities for investment. It would secure and record information regarding the relative desirability and advantage of all available kinds and places of investment for state funds.

These functions would include those of the state treasurer as now constituted and certain functions of the department of state lands and investments. Though it is not an integral part of the proposed plan, it is suggested that the investment functions of various agencies responsible for individual funds also be transferred to the treasurer.

In the exercise of the functions of investment and selection of depositories, it would be desirable to provide that the treasurer be subject to rules laid down by the board of examiners or the proposed board of finance, as set forth in the proposed fiscal code. Pending amendment of the constitution, the state depository board, rather than the treasurer and the board of finance, would be responsible for selecting depositories. Likewise, until it is eliminated by constitutional amendment, the supervisory board comprising the justices of the supreme court would continue to exercise jurisdiction over investments of state funds.

Comment on Present Treasury Procedures and the Fund Structure:

Deposit of State Moneys in the Treasury: Receipts from all the major sources of revenue are deposited in the state treasury, more or less promptly, either directly or to the credit of the treasurer in designated depository banks. Notice of the deposits made locally is transmitted to the treasurer in the form of duplicate deposit slips. The state treasurer issues his temporary receipt

for some revenues deposited with him and his official receipt for others, depending upon the type and source of receipts covered. The temporary receipts are issued for moneys credited to suspense accounts. This is done in order to provide an easy means of charging back uncollectible items and refunds. Each fifteen days the amount credited to the suspense account is distributed to the various funds upon the basis of information furnished the state treasurer by the various collecting agencies. Refunds are made by means of treasurer's check drawn upon the advice of the head of the appropriate collecting agency.

Official receipts are issued to the various agencies at the time money in the suspense account is distributed. In those cases where the official receipt is issued without clearing deposits through a suspense account, the source and type of revenue is such that there is little likelihood of need for a refund or of receiving an uncollectible item.

The principal defect in the depositing procedure lies in the fact that there is no adequate provision for the current auditing of receipts, although both the state auditor and the state board of examiners are charged with this responsibility by statute. The state treasurer prepares copies of his official receipts for the state auditor and allows the state accountant, acting for the state board of examiners, access to the copies retained in the treasury department. Neither of these officers has any record of the moneys credited to the suspense account, of refunds made, or of uncollectible items handled. In short, the state treasurer supplies all the information available to the officers who are charged with the responsibility for checking his transactions. The draft of the proposed fiscal code makes provision for the agency charged with the current audit of receipts to be supplied, by the collecting agency, with all the necessary information concerning receipts at the time the deposits are made with the state treasurer.

The principal agencies that do not handle their fiscal affairs through the state treasurer because of statutory provisions are the teachers' retirement board, the state department of public welfare, and the industrial accident board, insofar as certain limited items are concerned. Other minor agencies also handle their own fiscal affairs under statutory authority. These agencies are as follows:

State board of osteopathic examiners
State board of dental examiners
State board of pharmacy
State board of veterinary medical examiners
State examining board of beauty culturists
Board of barber examiners
Board of food distributors

There appears to be little justification for leaving these agencies in a special category and it is recommended that their fiscal affairs be handled in the normal manner.

Custody and handling of Cash Items in the State Treasury: The clerk on the staff of the state treasurer who is responsible for maintaining the treasury accounts is also custodian of cash items in the treasury and handles cash across the counter. This is highly objectionable. As a matter of principle, no employe responsible for the accounting records should have access to the cash. It is recommended that the office procedures be so reorganized as to make it unnecessary for the clerk in charge of the accounting records to have anything to do with the handling of cash.

Investment of State Moneys: The state treasurer now has comparatively little to do with the actual investment of state moneys. Such surplus cash as he may have to the credit of any fund may be invested, subject to the direction of the state depository board, in registered non-interest-bearing warrants of the state of Montana or in United States treasury certificates. Any surplus cash in any state bond sinking and interest fund may be invested by the state depository board in bonds of the state of Montana or of the United States, or in interest bearing general fund warrants of the state.

The state treasurer is custodian of the bonds and securities representing the investment of the various permanent funds of the state. These funds are actually invested for the state by the department of state lands and investments and the state board of land commissioners, subject to perfunctory supervision by the supervisory investment board.

Two other state agencies have investment functions on a relatively large scale. The retirement board of the teachers' retirement system invests moneys coming into its hands and the state industrial accident board invests the reserve fund built up on compensation insurance it writes.

The state treasurer does have the authority to purchase certificates of deposits from approved state depositories and thereby manages to invest some of the surplus cash not invested in other types of securities.

The state constitution was amended in 1939 to allow the grouping of all the state permanent investment funds, originating in land grants from the United States, into the Montana trust and legacy fund instead of being invested separately. Under this arrangement the interest income to the trust and legacy fund is apportioned quarterly by the state treasurer to the credit of the various investment funds making up the trust and legacy fund. The basis of the apportionment is the average principal amount of each such fund between the first and last day of the three-month period. The investment of the trust and legacy fund is, by statute, a responsibility of the state board of land commissioners but the treasurer has custody of the securities purchased.

Provision is made for the state to accept for investment and administration the funds available for investment belonging to any political subdivision of the state. The legislative assembly may provide for the investment and administration as a part of the trust and legacy fund of any other fund subject to its power.

At present the trust and legacy fund is being built up gradually by maintaining the "status quo" on all permanent funds invested prior to the passage of the constitutional amendment, except that, as the securities representing these investments mature, the money derived from the redemption is reinvested as a part of the trust and legacy fund. This method of building up the trust and legacy fund was developed upon the recommendation of the state supervisory board in order to avoid legal difficulties involved in the immediate transfer of all invested balances into the trust and legacy fund.

Fund Structure: Although the subject of special funds affects other agencies besides the treasury, it is considered in its entirety here. The present fund structure of the state government encompasses a wide variety and a great number of individual funds. The 1941 legislative budget reported on 218 of these funds but does not cover all the funds of the state. While the existence of a great number of these funds is objectionable, it is not advisable to

disturb the status of some of the others. The future creation of special funds should be avoided and the needed legislation developed and enacted to eliminate many of those now in existence.

The 1941 legislative budget classified the funds of the state, as of June 30, 1940, under nine heads listed below. The number of separate funds found under each heading is indicated.

Class of Funds	Number of Funds
Permanent funds	15
Interest and income funds	16
Federal trust and agency funds	30
Special funds	77
Investments	17
Revolving funds	35
Bond redemption and interest funds	19
Self-supporting activities	8
General fund	1
Total funds reported	218

The 1941 legislative assembly recognized the need for some remedial legislation designed to bring some order out of this chaos and enacted Chapter 14 which eliminated all the funds under the classification "revolving funds," together with several other funds under the classification "special funds." Unfortunately the legislative assembly also created several special funds in addition to those already existing.

Special funds, except for certain specific types, represent a clumsy and archaic method of making allocations of public moneys to particular purposes. They serve no useful purpose from the state's standpoint that could not be accomplished far more conveniently, efficiently, and economically through the budget system. Public money should be allocated upon the basis of demonstrated needs with due regard to the importance and urgency of each need in relation to all other needs at the time of the allocation. The special fund system takes no account of actual or relative needs for money but arbitrarily applies revenues from particular sources to particular purposes. Moreover it presumes to know what conditions and requirements in the future will be.

The theory of benefit in taxation is probably the most predominant cause for the development of the special fund system in Montana. Under this theory those who benefit from a government service are taxed for its support and their contributions are used to support the service. The benefit theory is sound in the main but it is not necessary to establish special funds with all the attendant complexities and loss of legislative and executive control to give effect to the principles involved. Budgeting and accounting can insure an allocation of funds decreed by the people or the legislative assembly.

Where, in any case, the reasonableness of the charges for any service, regulative or otherwise, must be proved to sustain the charges, the mere existence of a special fund is not the proof. The cost of the service must be shown to be reasonable and that is primarily an accounting problem. If the service involved is supported by the government, and the charge is reasonable, it is immaterial in law whether the cost is defrayed from a special fund or a budgetary appropriation.

Tradition and the supposed simplicity of special funds, are largely responsible for the continuous existence of the special fund system. When any group of taxpayers wants a new service, particularly a regulatory service in their own interests, the plan for the service ordinarily includes the means of financing it. No plan looks more simple at first glance than a provision in a bill to the effect that all the revenues collected under its provisions shall constitute a special fund from which the expenses of administering the act shall be defrayed. The fallacy of this is that neither the cost of administration nor the amount or rate of the fee is scientifically determined. In addition, a substantial part of the overhead cost of administration of almost every special fund is burne by the general fund supported by general taxation.

In establishing special funds, the resulting complexity of governmental finances, the added difficulties of accounting, the unavoidable volume and intricacies of financial reports, and the inevitable bewilderment of all concerned with the finances of government, are not given their proper weight.

A classification of funds designed to reveal those funds most susceptible to elimination is suggested. This classification is as follows:

(1) Public expendable funds derived from revenues and from the sale of bonds.

(2) Capital funds including working capital revolving funds, petty cash funds, and endowment funds.

(3) Debt retirement funds.

(4) Trust funds to which the state has no title but which it is simply holding as trustee, subject either to expenditure in accordance with the terms of the trust, or to return to the owner under certain conditions.

(5) Suspense funds, maintained only for the convenience of the accounting and treasury officials, through which moneys are cleared for allocation to other funds.

The recommendation that special funds be consolidated with the general fund and thereby eliminated is concerned only with the first of these groups, the public expendable funds. The funds classifiably under the other headings have a place in the financial structure of the state and are not embraced in the general recommendation for the abolition of special funds. These would, however, be regulated under more adequate general provisions incorporated in the suggested fiscal code.

The recommendation relative to this consolidation can only be effected by action of the legislative assembly. This action should make the consolidation outright without any reservations or restrictions in order that the funds affected may lose their identity completely, that all the balances now in the funds be transferred to the general fund and all future revenues be credited to it, and that all expenditures now made from these special funds be made from the general fund under regular budget and appropriation procedures.

Under this plan the amounts collected from each source would be separately accounted for and the expenditure budgets could be drawn to recognize as upper limits the amounts collected from sources now accruing to the special funds. Quarterly allotments could be based on the amounts actually so collected. There

would be no inherent danger of expending for any particular activity more than was collected from fees associated with that activity. But on the other hand, if the revenues from the activity exceeded the amount budgeted on the basis of the requirements for the proper performance of the activity, the excess would immediately become available for general fund expenditure. In the case of activities of a character such that it might be considered improper or illegal to collect more than the reasonable cost of regulation, if the excess of revenues should prove to be more than enough to pay a reasonable share of the state's overhead expenses, the charges should, of course, be reduced and the saving passed back to those who pay for the service.

All of this could be accomplished by simple accounting procedures much more economically, conveniently, and effectively than it is now done through the unwieldy, archaic, and expensive special fund system.

In making this recommendation it is fully recognized that certain funds, such as the highway funds, probably could not, because of their great size and political importance, be handled in this way. However, there are dozens of funds that could and should be consolidated because they have no justification for existence.

Department of Finance Under the Proposed Plan:

Proposed Functions of the Department of Finance: The functions that it is proposed be assigned to the department of finance are as follows:

General management and control of the finances and financial operations and affairs of the state.

Coordination of all the procedures for financial administration and financial control so as to integrate them into an adequate and unified system, including the devising, prescribing, and installing of accounting procedures for all state agencies.

Formulation of financial plans and programs for approval and adoption by the governor and the legislative assembly and the exercise of such controls as are necessary to provide for carrying out such financial plans and programs as are adopted.

Accounting and fiscal reporting for the state as a whole.

Current auditing of all cash, cash receipts, and receivables; auditing and controlling the incurring of obligations; preauditing all expenditures; and investigating and auditing financial affairs and operations.

Settling all claims against the state and issuing warrants for payment thereof from the state treasury.

Purchasing for all state agencies.

Maintaining records of all state property, and enforcing accountability for such property assigned to state agencies.

Controlling surplus property and assigning such property for use as required, and prescribing and enforcing regulations governing the condemnation and disposition of portable properties of no further use to the state.

Furnishing such central office services as mail, messenger, duplicating, addressing, copying, and extra stenographic and clerical services, to the extent deemed to be desirable and practicable from the standpoint of economy.

Insofar as these functions are now performed they would be transferred from the state accountant, the board of examiners, the state auditor, and the purchasing department.

General Plan of Organization of the Department of Finance: It is proposed that the new department of finance be headed by a director of finance appointed by the governor, preferably with the confirmation of the senate. The appointment could well be restricted by whatever technical qualification requirements the legislative assembly would be willing to incorporate in the law. Within the department, and under the direct supervision of the director it is proposed that there be two divisions, which might be called the division of accounting and budgetary control and the division of purchases and public property.

Attached to the department of finance it is proposed that there be an advisory, policy-forming, rule-approving, and appellate board, which would have certain specified and limited responsib ilities, but no administrative authority.

The details of the proposed plan are discussed in the paragraphs that follow:

Director of Finance: The entire responsibility for the management of the proposed department of finance and for the coordination of all financial and general administrative processes in all departments and agencies of the state government should be vested in a director of finance, subject, of course, to his responsibility to the governor as his superior officer.

The director should formulate, subject to the approval of the board of finance, rules and regulations for the operation of the department and for the guidance of all spending agencies. His main task would be the coordination of the various activities of his own department in order to insure that all the information needed for effective financial administration is produced in the form in which, and at the time, it is needed.

The fiscal code should designate the director of finance as the state budget officer. This would place complete responsibility for the budget under the control of the governor. The preparation of the budget would be an important duty of the director. As is more fully discussed later, the work of the budget officer would be expanded to include the preparation of a final budget after the appropriations are made and the continuing review of expenditures to secure conformity with legislative and executive policies and with actual income realizations.

Board of Finance: Since the main functions of the board attached to the department would have to do with finances, it is suggested that it be called "the board of finance." A small number of members, with provision for continuity, is desirable, and hence it is recommended that the board be composed of three members appointed for six-year overlapping terms, one every two years after the board is first constituted.

The chief executive should be definitely responsible for the administration of the affairs of the state and each new governor should have representation on such a board. It is, therefore, proposed that appointments to the board be made by the governor.

The value of the services of such a board would depend entirely upon the character and ability of its members, and every effort should, therefore, be made to insure the appointment of men of unquestioned integrity and capacity. It is essential, too, that, in the discharge of their duties, they be thoroughly impartial. It is, therefore, recommended that the law provide that the governor appoint men who have demonstrated their ability and leadership in comparable fields of work, who have manifested interest in public affairs, who hold no other public offices, and whose private business interests do not involve them in contracts with the state.

The members of the board should be reimbursed for expenses incurred in the discharge of their duties and be allowed nominal compensation on a per diem basis for their services, not to exceed the fixed amount appropriated therefor in any one year.

Pending constitutional changes, the board of examiners would serve in lieu of the proposed board of finance.

As is more fully set out in the proposed fiscal code attached to this report as Exhibit A, the board of finance would be vested with responsibility for making decisions on questions of policy that arise in the administration of the fiscal affairs of the state; for the exercise of such quasi-legislative functions as the consideration of applications for, and the authorization of, transfers among appropriations of the various spending agencies; for the approval of rules and regulations governing budgeting, accounting, preauditing, purchasing, and property control; and for the hearing of complaints by spending agencies and the general public as to the application of such rules and regulations or as to the acts of the director of finance.

The board should be empowered to make, or cause to be made, through the proposed department of finance or any of its divisions, such investigations or studies as it may deem necessary for the formulation of policies and plans or for the determination of the wisdom and efficacy of the policies, plans, and procedures in effect; and to report its findings and recommendations to the legislative assembly, the governor, and the director of finance, or any one of them, as it may see fit.

Division of Accounting and Budgetary Control: The proposed division of accounting and budgetary control would be headed by a controller appointed by the director of finance. The qualifications for this position should be prescribed by law, and should include an education equivalent to graduation in liberal arts from an accredited university, or graduation from an accredited school of accounting and business administration; certification as a public accountant; and at least eight years of experience as an accountant, including five years of experience as a practicing certified public accountant or as a responsible executive accountant in business or, preferably, governmental enterprises; or such combination of education and experience as the director of finance and the governor may deem to be equivalent to these qualifications.

The division of accounting and budgetary control should provide the necessary staff to enable the director of finance to compile and administer the budget. In performing this task it would be well for the division to have access to the technical advice and assistance of individuals with a thorough knowledge of engineering problems and construction costs. Such individuals might be found on the staff of the state engineer or whatever office may be assigned similar duties in a revised plan of state organization. The division of accounting and budgetary control should also be vested with the responsibility for accounting, current auditing of receipts, preauditing of commitments and disbursements, and issuing of state warrants.

The controller, subject to the supervision and direction of the director of finance, should prescribe a unified and integrated system of budgetary, proprietary, and allotment accounts for the state as a whole, including a classification of revenues and other resources and of expenditures, and should direct the installation of such a system. He should also serve as the direct representative of the director of finance in budgetary matters.

The controller should be responsible for keeping the spending agencies informed as to the status of their appropriations and allotments and for the preparation of frequent reports on the financial condition of the state, on receipts and disbursements, income and expenditures, and on the expenditures of the several state agencies and their subdivisions. With the accounting under the same direction as budgeting, the information required for budgeting could be produced when it is required and in the form in which it could be used without the necessity for a great deal of further detailed analysis and rearrangement.

The controller should also be responsible for the preaudit of all commitments as evidenced by copies of commitment documents filed with the division of accounting and budgetary control before the incurring of obligations, the preaudit of all expenditures including payrolls, and the current audit control of all receipts and receivables; and should issue all warrants in payment of audited and approved claims.

Division of Purchases and Public Property: It is proposed that complete responsibility for purchasing, for control of all state property except public lands and investments, and for the operation of central office services as hereinafter suggested, be vested in a division of purchases and public property of the department of finance. This division would be headed by a purchasing agent appointed by the director of finance. The qualifications of the purchasing agent should be prescribed by law and should include graduation in business administration from an institution of recognized standing and seven years of business experience, of which at least four years shall have been in a responsible capacity in purchasing, or any equivalent combination of education and experience; and a thorough knowledge of purchasing.

The purchasing agency, subject to the supervision and direction of the director, should be responsible for purchasing for the combined requirements of all the spending agencies of all such supplies, materials, and equipment as can efficiently and economically be purchased through a central agency. He should be given functional supervision of all purchasing by the various spending agencies and the power to prescribe rules and regulations to govern purchasing by and for all state agencies. He should have control of all supply stocks and enforce the keeping of inventory accounts as prescribed by the controller. Perpetual inventories of plant and equipment should be maintained under his direction, and he should be given power to transfer, salvage, exchange, and recommend to the director of finance the condemnation of property not required for state purposes.

The division should operate a mail and messenger service, handle all postage for all departments located in the state capitol, largely by postage meter, and maintain a central supply service including a central storeroom for stationery and office supplies.

All outgoing mail could be picked up by a central messenger service and the postage be affixed by a postage meter. This would give an effective control of postage and would undoubtedly result in a worthwhile economy by eliminating the losses always involved in the decentralized handling of postage stamps.

State Budgeting and Appropriating Procedures:

Essential Elements of an Adequate Budget System: The essentials of an adequate budget system and procedures are incorporated in the suggested draft of a fiscal code attached as Exhibit A to this report. They are summarized here.

There are four distinct phases in any adequate budget system. These are briefly described in the following paragraphs:

The first phase is the preparation of a complete financial plan for a definite future period with all the data concerning financial policies, financial condition, income and expenditures, receipts and disbursements, and costs of operations that are needed for a clear understanding of the plan and procedures. This is what is generally referred to as the preparation of the budget but the result is no more than a budget report to the legislative assembly.

The second phase is the consideration of the budget report by the legislative assembly and the enactment of the appropriation and revenue acts, which should provide adequate means of financing all appropriations.

The third phase is the preparation of the complete budget. This involves amending the original budget report to give effect to all the changes made by the legislative assembly in order to record the detailed financial plan as approved by the legislative assembly, as a basis for the exercise of budgetary control.

The last phase, in order but not in importance, is the administration of the budget. This involves the authorization of expenditures under appropriations through an allotment procedure, the maintenance of adequate accounts with both the revenue and expenditure sides of the budget, the control of the incurring of obligations, and the control of the payment of resulting claims.

Criticism of the Present Budget Act: The title "legislative budget" is applied to the biennial budget report (as defined above) of the state board of examiners to the legislative assembly. This report as presented to the 1941 legislative assembly contains many praiseworthy features, chief of which is the use of a standard classification of disbursements by classes of commodities and services for some of the agencies.

One defect in the budget report as now prepared is that the so-called expenditure figures of the various agencies represent disbursements and take no account either of obligations outstanding and unpaid or of stocks of supplies and materials on hand and available for use.

There is no requirement in the budget act that the distinctions among ordinary expenses of operation and maintenance or ordinary recurring expenses, on the one hand, and extraordinary expenses, and capital outlays of all kinds, on the other hand, be recognized. There appears to be no consideration given to the principle of budgeting that an established order of allocation of available funds should be maintained. This order should be that applications for appropriations for capital outlay and extraordinary expense will be considered only after provision for ordinary recurring expenses has been made from available resources and only to the extent of the surplus of such resources over the needs for the ordinary recurring expenses.

There is nothing in the budget act about the administration of the budget. The act limits budgeting to the compilation of estimates, the holding of hearings, and the preparation of a budget document. In this respect the act is especially deficient. The adoption of a budget, in the fullest sense of the word, presupposes not only the drawing up of a financial plan but also actual budgetary control of expenditures. The budget act should state clearly and positively how the budget is to be executed and the limitations to be put on spending agencies in incurring obligations under appropriations.

This failure to provide a means of controlling the incurring of obligations is the outstanding weakness of the budget act. It is a fundamental principle of sound budgeting that the budget should be balanced on a cash basis. This necessitates a control that expenditures shall not be incurred unless it may be clearly foreseen that there will be cash in the treasury to pay the resulting claims.

Special Fund System and the Budget: As previously noted the state has a great number of special funds which, in the final analysis, are but continuing appropriations for specific purposes. Originally the special fund system was the forerunner or substitute for budgeting. Modern budgetary procedure is incompatible and irreconcilable with a system of special funds, although any budgetary procedure in practice must of a necessity recognize the existing fund structure until it can be chenged.

The most effective budgetary results are obtained under a condition whereby all revenues and expenditures come within the scope of the budget. Under such a system, the resources of the state can be budgeted and appropriated on the basis of proved needs and with due regard to the relative importance of the various activities of government. The condition of some inadequately financed activities and some excessively financed activities occurring simultaneously, found under the special fund system because of its rigidity in the allocation of resources, can be avoided.

As a direct result of the special fund system little attention is given by the legislative assembly or by the central fiscal agencies to those funds and activities for which no special appropriations are made. As a case in point, the highway department does not prepare and submit budget estimates. This department accounts for a very large fraction of the expenditures of the state. It would be wise to provide that the highway department, and other agencies under similar circumstances, submit to the budget-making authority completely detailed budget proposals with requests for lump-sum appropriations based thereon, and that an appropriation be made for each main purpose for which highway funds may be expended. The highway department should then be left to exercise budgetary control over its own expenditures, subject to the general supervision of the department of finance, and to the provision that expenditures shall be made in conformity with the detailed estimates, except as departures therefrom are made necessary by unforeseen circumstances.

The abolition of the special fund system in Montana should be begun as soon as possible and all the revenues and expenditures of the state brought under budgetary control. This abolition of special funds does not necessarily mean the elimination of the policy of limiting the expenditures for certain activities to the amount of revenue derived from specific sources. The legislative assembly, if it sees fit to do so, may still provide that appropriations for such activities be limited as to amount by the amount of revenue derived from various sources.

The optimum arrangement in Montana would seem to be the establishment of one fund for the general operations of the state government with provisions for special capital funds, trust funds, funds for the proceeds of bond issues, funds for the retirement of bonded indebtedness, and suspense funds.

Relationships Between the Appropriation Acts and the Budget: The appropriation acts, of necessity, should be specific as to the time, amount, and purpose of the authorization for the expenditure of public funds. Care should be exercised, however, that effective financial administration is not hampered by the restrictive nature of the appropriation act. It is preferable within the limits set out in the proposed fiscal code to secure control of expenditures by means of administrative methods such as adequate audits, accounts, and financial reports.

Appropriations that may be used in either year of the biennium such as those now made for the ordinary expenses of various agencies are not definite as to time and tend to exclude them from the financial planning to which other expenditures are subjected.

An appropriation which allows an agency to spend as much as it receives in revenue defeats the primary purpose of budgeting. When the amounts available for expenditures by any agency are indefinite in amount and are dependent upon the collection activities of such agency, a condition is obtained whereby the agency assumes a proprietary attitude toward the revenue collected by it. Such a condition is also conducive to excessive expenditures on the part of some agencies while others are forced to operate under straitened circumstances. All public functions, other than those business enterprises regularly provided for through revolving working capital appropriations under such controls are set forth in the draft of a proposed fiscal code, should be financed by specific appropriations. In the event it is desired to allow the amount of collections to determine in part the amount of expenditures to be authorized, this can be done at the time the budget report is compiled by taking into consideration the estimated collections in determining the amount of appropriation requested.

Need for Continuous Budgeting and Allotment of Appropriations: Continuous budgeting is a prime essential of effective financial management. Continuous budgeting involves frequent reviewing of revenue estimates and realizations, reestimating revenue yields, considering the condition of the treasury, and reviewing expenditures. Upon the basis of such reviews, the spending program of the state should be retarded or accelerated as the condition and estimated future condition of the treasury may warrant. Obviously, it is neither good policy nor good management to continue on a spending program involving capital outlays or extraordinary expenditures, when it is clear that the state is headed for, or has already incurred, a cash deficit.

Assuming that the budget was balanced on a sound basis as of the beginning of a fiscal period, it should be possible for the administration to control expenditures to the extent necessary to bring the total within the available resources. Neither the legislative assembly nor the administration can control revenues so as to provide any given amount of cash at any time. Only through periodic review of the progress of collections, adjustments of the revenue estimates on the basis of the latest available date, and the authorization of expenditures in the light of present and probable future condition of the treasury, can cash deficits be avoided.

An excellent illustration of the need for continuous budgetary control, and of the basic defect in the system of providing special dedications of revenues

and special funds for financing particular activities, is found in the situetion now existing among the various units of the greater university. For several years these units have, for the most part, been seriously handicapped by a shortage of funds. This resulted in an increase in the tax levy for their support which became available for the current fiscal year. However, there have been marked decreases in enrollments in several of the institutions in the fall of 1941. These institutions now have appropriations available which will, if all expended, result in as much as 50 or maybe 60 percent increases in operating costs per student. There should be provision for a central fiscal agency to prevent extravagant expenditures as a result of this condition, which the legislative assembly could not foresee.

The procedures through which continuous budgeting is effected are commonly referred to as an "allotment system". Under such a system appropriations do not become available for expenditure until they are "allotted" to the spending agencies.

The provisions of the suggested fiscal code relating to budgeting confer upon the department of finance the responsibility of administering an allotment system and the duties involved in the periodic review of the progress of the collection of revenues, of revising the revenue estimates on the basis of the latest available information, and of forecasting the probable future condition of the treasury.

Under this plan, the state budget, at the beginning of the fiscal year, would constitute the complete financial plan for the year, subject to amendment as the year progresses. Prior to the beginning of each quarter, the estimates of revenues would be revised and the spending agencies would revise their estimates of money requirements and request allotments therefor. The director of finance would authorize, prior to the beginning of each quarter, the expenditures which he estimates can be promptly met during the ensuing quarter from the available resources in the treasury. In the event of disagreement as to the amount authorized with any spending agency, the board of finance would be called upon to decide the question at issue.

An allotment procedure such as outlined in the suggested fiscal code would effectively prevent the rush at the end of fiscal periods to spend every available dollar appropriated. It would also do much to eliminate the need for deficiency appropriations. When the expenditure program for each agency for each quarter can be reviewed as a whole, an alert director of finance can prevent waste and extravagance due to "hit or miss" operating policies much more readily than through consideration of individual items of expenditure.

Budgetary Control Over Individual Expenditure Items: In addition to the quarterly allotment of funds, an adequate control should be established over expenditures prior to the time that the liability for them has been incurred. This control should extend to the propriety of the individual expenditure item under the appropriation act and the allotment to which the expenditure is to be charged. The control should also extend to the determination of the availability of funds to meet the proposed disbursement with the power of veto until all funds are made available.

If the budgetary control of expenditures is to be made effective, it is imperative that no contracts be entered into nor orders, oral or written, be issued for the doing of any work or the furnishing of any commodities, that will involve expenditures in excess of appropriations or budget allotments, or for unauthorized purposes. It is, therefore, necessary that some agency should be responsible for

seeing that expenditures do not exceed appropriations and that unauthorized obligations are not incurred, and for examining, and accounting systematically for, all commitments.

If responsibility for spending is definitely delegated to, and placed upon the administrative heads of spending agencies under clear rules and regulations; if they are required promptly to advise a central control office of all commitments entered into; if information is made available to them at frequent intervals as to expenditures made; and if their proposed expenditure programs are reviewed in detail in advance, it is not essential that prior approval by the department of finance be required of proposed expenditures as to their propriety and as to availability of funds, before the contracts (under certain amounts) are entered into or orders issued.

If proper provision is made for prompt recording of the incurring of obligations, information as to the contingent liabilities of the state, needed in budget-making, can easily be produced as a by-product of the system of control in effect.

Current or Preauditing: It is now customary to speak of the proper kind of internal audit, in which proposed commitments and claims are passed upon before obligations are incurred or payments are authorized, as a preaudit. The preaudit first determines that the proposed expenditures, as evidenced by purchase requisitions and orders, contracts, service agreements, and travel authorizations, are strictly within the scope and purpose of the appropriations to which the resulting expenditures are to be charged, that the prices or rates are fair and reasonable, and that sufficient funds are available to liquidate the claims;: and, second, concerns itself with the actual claims in order to insure that they represent properly authorized expenditures, that the rates or prices charged are fair and are as stipulated in the orders or contracts, that the commodities have been received or the services rendered for the benefit of the state and are satisfactory, that each claim is mathematically correct, and that no part of any claim has been passed previously for payment. This is the only kind of an audit that is really effective in preventing the common types of losses and estravagances, and is the audit that should be made by or under the supervision and direction of a central fiscal agency.

The preaudit does not now extend to proposed expenditures except those relating to printing, capital outlay, or travel out of the state. The state board of examiners is required by law to pass upon the proposed expenditures for printing and capital outlay and have adopted a policy of passing upon proposed out-of-state travel. Other than this there is no central fiscal agency with the power to prevent the incurring of obligations for improper expenditures, including expenditures in excess of appropriation balances, nor is there any proper basis for the audit of claims when they are presented for payment.

Responsibility for the preaudit function is at present divided among the state board of examiners, the state purchasing agent, and the state auditor. In order to insure themselves in a measure of the true status of the claims they are called upon to approve, the state board of examiners has caused a unit to be set up under its direction to examine claims presented to it. This unit, functioning as it does with no notice of the obligations until the claims are presented, performs its work as well as can be expected.

All purchases of supplies, materials, and commodities must be made through the state purchasing department. The claims covering these purchases are approved by the heads of the various state agencies receiving the commodities as to the receipt and satisfactory condition. Such claims are then passed upon

and approved by the purchasing agent for agreement as to price and quantity with the purchase order or contract. The claims are then passed by the state board of examiners without question as to accuracy or propriety.

The state auditor is required by law to audit all claims against the state. At the time the warrants are written by the auditor an examination as to the fund or appropriation designation is made. The mathematical accuracy is checked and the availability of appropriation balances is ascertained.

The procedures now followed are not designed to insure that attention is given to every point that should be covered before a claim is finally approved for payment. Some duplication of effort is present and it is felt that the installation of an effective system of preauditing would not result in an increase in force.

Need for Consolidated Contingent Appropriations: The term "contingent" is used here to mean "dependent upon factors that cannot be foreseen." No reference is intended to the so-called "contingent advances" made to various state agencies which operate in the manner of imprest cash funds. It is the practice of many of the spending agencies to request, and for the legislative assembly to grant, deficiency appropriations. While a part of the necessity for deficiency appropriations lies in unforeseen happenings, the practice of allowing deficiency appropriations has resulted in the relaxing of administrative control of expenditures as it virtually obviates any necessity for staying within the original appropriations.

Some provision for contingencies is necessary, as spending agencies should be encouraged to keep requests for appropriations to a minimum in the assurance that, should real unforeseen circumstances require it, additional funds can be made available.

Specific appropriations for amounts in excess of requirements are highly undesirable and the spending agencies should not be permitted to pad their requests for appropriations to provide for contingencies. The proper procedure is to provide for demonstrated needs only and frankly to admit the need for a provision for contingencies.

One of the reasons why a separate contingent appropriation for each spending agency is undesirable lies in the fact that more money is required to be appropriated than when one such appropriation is made for the state as a whole.

The suggested fiscal code, therefore, makes provision for one contingent appropriation to be made to the department of finance to be allotted to the spending agencies only when actual contingencies are proved and the need for funds demonstrated.

A central approval of expenditures under the head of contingencies is provided by the suggested fiscal code and is certain to provide savings. Such central approval in every case is a necessary part of the system of having a single contingent appropriation. It has been demonstrated in other states that a central contingent appropriation is an important factor in eliminating deficits and deficiency appropriations, which, before the establishment of the central contingent appropriation, often ran to several times the amount of expenditures made from such contingent appropriation.

Accounting and Fiscal Reporting:

General Comments on Accounting System: It is the purpose of accounting and fiscal reporting to produce, and make available in permanent form, such information about the financial operations and financial condition of the state as will be useful to administrative officials and members of the legislative assembly. The principal categories into which the information required may be classified are those that relate to:

Financial Condition
Comparisons of Actual Performance with Financial Plans
Income
Expenditures
Receipts
Disbursements

In later paragraphs the extent to which the present accounting system fails to produce the information necessary is pointed out.

Among the immediate causes of the present inadequacy of accounting records, the complex and outmoded body of fiscal law deserves special mention. The defects in organization for financial administration unquestionably are contributing causes. The modern technique of governmental accounting has not been given a chance to find a foothold or demonstrate its advantages. Unfortunately, the remedy is not easy to put into effect. Of necessity the accounting system of the state must be accommodated to the financial organization of the state, its policies, and its general operating methods. The latter are determined now, to a considerable extent, by the statutes, which are badly in need of revision.

Much could be done to eliminate imperfections in the present system in line with the recommendations in this report for the changes in organization and procedures possible without constitutional and statutory changes. It would not be wise, however, to perfect an accounting system designed solely to give effect to present laws; but once a clear, consistent, and enlightened financial policy has b een determined upon, the work of devising and installing a modern accounting system could proceed freely and surely to yield the maximum of beneficial results.

In considering the state's accounting system, the fact that a comprehensive and adequate budget cannot be prepared without the information and data that only adequate accounts can produce, should be recognized. Even if the most perfect budget system that could be devised were provided, it could not acccomplish its purpose under the present accounting system. There is, therefore, very little to be gained from improving the state budget law as suggested earlier in this report, if provision is not made at the same time for implementing the organization and procedures for financial administration with an adequate system of accounting records and reports. With this in mind the suggested draft of a fiscal code has been developed to incorporate provisions for adequate accounting and fiscal reporting methods as well as provisions relating to budgeting procedure.

If it is decided to put into effect the proposed plan of organization involving no statutory or constitutional changes, the state board of examiners and the state accountant will find it necessary to make certain changes in forms and procedures. Such changes need not be extensive in nature. At such time, however, as the changes incorporated in the suggested fiscal code are put into effect, it would be necessary to have an entirely new set of documents, books of original entry, and ledgers, together with a totally different division of accounting work and the coordination of the processes of the accounting office with those of other departments of the state.

Information Required as to Financial Condition: One of the first requisites of financial administration is information as to financial condition. Such information is needed for the current management of funds, for financial planning, and for rendering an account of the stewardship of public funds.

The medium through which this information is made available is the balance sheet. The term "balance sheet," as it is generally used, refers to a statement presenting on the one side in summary form under a suitable classification, all property owned, and what purports to be its value and, on the other side, also in summary form and suitably classified, all amounts owing to creditors. Its primary purpose is to disclose the relationship between assets and liabilities.

The financial condition of a state government, however, is in no way dependent upon what monetary values may be placed upon land, buildings, equipment, or such public improvements as highways, roads, and bridges. Information concerning the value of these assets has no bearing on financial condition as of any given date, and it is, therefore, better excluded from the balance sheet.

The information as to financial condition that is needed in such as will disclose the relationships between assets and the liabilities payable from them. It should disclose as of a given date whether there are sufficient liquid resources - cash and other assets that may be readily converted into cash - to meet liabilities payable immediately, and whether there is a surplus of such resources available for expenditure in the ensuing period.

Information as to financial condition is absolutely indispensable to effective financial planning, because a surplus of resources as of the end of a fiscal period constitutes a means of financing in the ensuing period and, conversely, a deficit or an excess of liabilities over the available resources as of the end of a period must be provided for from the resources of the ensuing period. The surplus or deficit of available resources as of the end of a fiscal period may, therefore, have a very important bearing upon the income and expenditure programs of a new fiscal period.

This sounds extremely simple. But it is not uncommonly found in other jurisdictions that a lack of reliable information as to financial condition has resulted in overtaxation or drastic retrenchment of expenditures, when neither was justified, and both of which adversely effected the welfare of the people and the morale in the government service. Moreover, without reliable information it is impossible to ascertain with any degree of accuracy, the outcome of the operations of a fiscal period and the soundness or unsoundness of the financial and operating plans.

Information as to assets and liabilities is an important factor in treasury management. Provision can be made for the prompt payment of claims against the state, and for the division of cash between active and inactive depositories, only when the probable receipts and disbursements from day to day can be estimated with a fair degree of accuracy. In making such estimates a statement of financial condition presents needed basic data.

It is axiomatic in effective management that administrative officials should be concerned with only those details that represent deviations from plans or established routines, but that they should be kept informed as to the carrying out of plans through the medium of performance reports. It is a function of the financial officer to see that all receivables are properly controlled, and that collections are effected as promptly as possible. Frequent reports on

financial condition disclose the amount of cash tied up in receivables. They bring to the attention of the administrator the need for follow-up of collections, and for proper accounting control.

In the absence of reports on financial condition or special reports on receivables, it has been repeatedly demonstrated that the accounting and auditing control of them, and the collection procedures, develop into more routines, which come to be regarded as the whole aim. Some one responsible official should be held responsible for the frequent review of receivables, in the light of information as to the financial condition.

Since each of the special funds into which the resources of the state government are segregated, represents an allocation of resources for some definite purpose or activity, the effect is to restrict the application of the assets of the fund and the means of retiring its liabilities. Moreover, the surplus of each fund is available only for the purpose for which the fund was created. It is obvious that in order accurately to portray the financial condition of the state, fund restrictions must be recognized in the preparation of balance sheets or statements of financial condition. Statements of financial condition for the general revenue fund and each special fund ought to be made available; otherwise there is no way of knowing whether restrictions on the use of funds are being observed, and no basis for determining the sufficiency or insufficiency of the income of the general revenue fund or the resources set aside for particular purposes.

Information Produced as to Financial Condition: Both the state auditor and the state accountant produce balance sheets proporting to reveal the financial condition of the state. These balance sheets are similar in form and content. The balance sheet prepared by the state auditor sppears as a part of his "Biennial Report" and the balance sheet prepared by the state accountant appears as a part of the "Legislative Budget." In each there appears on the asset side a statement of the cash holdings of the state, the value of the investments, and the value of inventories and other state property including the value of buildings and structures. On the liability side of the balance sheets there appears a statement of the warrants and the bonds outstanding. The difference between the total shown for the assets and the liabilities is shown as surplus.

It can be seen from this description of the balance sheets of the state that the useful information produced as to financial condition is exceedingly meager.

Both of the balance sheets are deficient in that they do not take into account the cash in the hands of the collecting and spending agencies or in transit to the treasury. There is no information produced or on record as to the amounts owed to, and by, the state. No attempt is ever made to establish the amount of the accounts payable as of the end of the year, not even the amount of those that may have been presented for payment and are held unpaid.

Statements of the cash transactions are prepared by the state auditor wherein the cash balance and outstanding warrants of each fund are shown. Other statements showing the investments of each fund are also prepared but no other information as to the assets and liabilities of the funds is presented or is available.

Strict segregation of the resources of the several special funds are maintained, within the limitation that all transactions are recorded on a cash basis.

No particular effort on the part of any central fiscal agency is made to establish control over or collect outstanding accounts receivable that may be due the state. Each collecting agency is left to its own devises as to the collecting methods employed and the records or control established. This condition is understandable when it is considered that all financial transactions of the state are recorded upon the cash basis rather than an accrual basis.

Information Required for the Comparison of Financial Plans and Actual Performance: That the financial plans of the state should be compared with actual performance, implies the existence of a concrete financial plan for a definite future period and records of the performance under the plan.

The complete financial plan for each fiscal year should take the form of a detailed budget, embracing both means of financing and estimated expenditures. The budget should be based upon the original budget report revised to bring it into conformity with the revenue and appropriation acts, and to allow for differences between the estimated financial condition as of the beginning of a year and the actual condition.

Accounts should be maintained with the budget estimates, in order to disclose their status at all times and variations from them. When these procedures are followed it is possible to show definitely the extent to which the legislature and the administration, respectively, are responsible for the financial plans, and systematically and accurately to account for every variation between estimated available resources and the resources actually made available and between the planned spending program and actual expenditures. When responsibilities can be definitely fixed, there is likely to be more care exercised in estimating and planning, and fewer glaring mistakes made. Moreover, the frequent comparison of budget estimates, broken down by months, with actual performance, is absolutely essential to effective financial management. A deficit may be avoided by the proper kind of fiscal control based on complete and accurate data as to the working out of the financial plan.

Information Produced for the Comparison of Financial Plans and Actual Performance: The state has made no provision for the systematic compilation of data and preparation of reports on the working out of its financial plans. In fact, it may be said that the financial planning of the state is of a rudimentary nature. There does not appear to have been any attempt made by any administrative agency to prepare a complete budget based on the original budget estimates as modified by the revenue and appropriation acts, much less to keep accounts with budget estimates, or to compare the detail estimated resources with realization, and the estimated with the actual expenditures. The most that is accomplished is the keeping of accounts with the total amounts appropriated by the legislature. This operation is carried out by both the state auditor and the state accountant and serves to keep the cash disbursements for any particular year within the appropriation limits, but does not serve to keep the incurring of obligations within these limits.

Information Required as to Income: It would seem to be superfluous to say that information as to all the sources of income of the state government as a whole and the amount accrued from each source in a given period ought to be produced. Without information as to the sources of income and the amount accrued from each source, there can be no effective control of collections, and no proper basis for the intelligent consideration of revenue programs.

Definite and reliable information as to the sources of all income enables the financial officers to analyze fluctuations in income and is indispensable to the preparation of the budget. It discloses items of income that do not

justify the administrative expenses involved and facilitates comparisons with other states.

For administrative and control purposes the agencies of the government responsible for the assessment and collection of income ought also to be disclosed. This means that information as to the sources of income for which each agency is responsible ought to be produced.

Information should also be produced as to the allocation of income to the various funds, and as to the sources of income of each fund, for the assessing and collecting of which the several agencies are responsible.

The asset value of uncollected income should be determined as closely as possible in order that the statements of financial condition may reflect the situation. The full amount of all uncollected income ought to be set up on the general books of the state, as should the estimate of the uncollectible portion, and the difference should be included as an asset. This makes the financial statement tell the complete story, and has just the same effect as saying there is so much money owing to the state, but that it is believed to be safe to count on only a stated amount of it as being collectible. This cannot be done without full and complete information concerning the income.

Information Produced as to Income: There is no systematic and comprehensive accounting for the income accrued or accruing to the state. The central fiscal agencies content themselves with a record of the income actually received, distributed according to funds to which such income is allocated by the statutes. The state accountant maintains a distribution of this income according to source as well as the allocation to funds.

All records of income maintained by the central fiscal agencies are developed from reports of the collecting agencies and copies of official receipts given by the state treasurer to the collecting agencies when the revenues collected are deposited with him. All income to the state does not clear through the state treasurer and his records are, therefore, deficient to this extent.

There is no evidence of there ever having been a determined attempt by any central fiscal agency to establish and maintain a control over anticipated and realized income although there does seem to be some basis in law for the state auditor to discharge this function.

The individual collecting agencies do not maintain adequate records of receivables due the state. Possibly the most extensive records of this kind are maintained by the board of equalization in order to control the partial payments received on income tax.

It is emphasized at this point that where there is no control of income, there can be no control of receivables and no vigorous prosecution of the collection of amounts due the state. In this respect the requirements of an effective financial administration are not met by any state agency for the state as a whole.

Information Required as to Expenditures: The actual expenditures of the state government as a whole for a fiscal period should be compared with the asset value, or the estimated collectible portion, of the income of the same period. This is done through the medium of a statement of operations. The connecting link between the statement of operations and the balance sheet is the surplus account wherein the effect on surplus of the transactions of the period is clearly indicated, and where accounting should be made for realizations from fixed assets, receipts of prior years not set up as assets, etc.

Concerning expenditures of any period, one of the first matters of general interest is the total for the period, and the second is the relationship between that total and the total asset value of the income of the period plus the available resources, or less the deficit of resources, as of the end of the previous period.

A comparison of receipts and expenditures is not of very great significance even under the pay-as-you-go policy of operating. The state does not make purchases on the "C.O.D." plan. For this reason only a very small portion of the expenditures of any one month or other period is met from the cash receipts of the same period. Claims against the government have an average currency of at least thirty days from the time the expenditures that they represent are made until they are paid. A large portion of claims is not presented for payment in the ordinary course of business within thirty days. When considering means of financing, disbursements, and not expenditures, should be compared with actual cash receipts.

But information as to expenditures is needed if the true cost of government is to be ascertained and if the budgetary control of expenditures is to be made effective.

The purposes for Which Expenditures are Made: With regard to expenditures, the information that probably, in the final analysis, is of greatest importance to the taxpayers is that as to the purposes for which the expenditures were made.

All expenditures are made with a view to attaining some end or purpose in the carrying out of the functions of government. Information should, therefore, be produced as to the amount of money expended for the major functions of government. The legislature, the financial officers, the citizens and taxpayers, ought to know, for example, how much money is being spent for general government; protection to person and property; conservation of health and sanitation; construction and maintenance of highways, roads, and bridges; charities, hospitals, and corrections; education; conservation and development of natural resources; etc. Such information is indispensable if the relative importance of the major functions of government is to be properly considered and a well-balanced government service to meet the demands of the majority of the people provided. This information ought to be produced for the state government as a whole, irrespective of the sources from which the agencies responsible for the various functions are supported.

The Expenditures of Each Agency of Government: In the interests of expenditure control and to disclose in a general way the agencies responsible for the major functions of the state government, information as to the expenditures of each of the agencies is indispensable. Ultimate responsibility for expenditures rests in the administrative heads of the several agencies of the government, and the amount of money spent by each must be known currently if budgetary control is to mean anything. Most of the agencies of the government can be classified by major functions of government, so that one statement can be produced to show the total expenditures of each agency and the total for each major function of government.

The Ordinary Expenses of Government: In financing the activities of the state, the first consideration ought to be provision for the ordinary expenses, or what might loosely be called the normal running expenses. These expenses will be termed here the "ordinary recurring expenses" because they recur in more or less equal amounts from year to year. The ordinary recurring expenses

of each major function of government and of each agency of the government ought to be known. They should, therefore, be classified by major functions of government and by expending agencies.

Extraordinary Expenses and Capital Outlays: Expenditures or capital outlays for the acquisition of land, erection and equipment of buildings, and the construction of highways; and extraordinary expenses occasioned by such unforeseen and uncontrollable things as windstorms, floods, epidemics, etc., ought to be considered separate and apart from ordinary recurring expenses. Capital outlays should be classified separately to show the outlay of each agency and the total for each major function of government. Extraordinary expenses should be similarly classified.

The Commodities and Services Purchased: The most practicable way in which the expenditures of any agency or for any purpose can be estimated is through the determination of what personal services and commodities are required. Also in controlling expenditures it is not sufficient to know that money was expended for a particular purpose, but the justification for salaries and wages paid, for the cost of contractual services, for supplies and materials bought, and for property acquired, should be apparent. It is, therefore, necessary to get information as to the things purchased for a given purpose. This information is produced through a classification of ordinary recurring expenses, extraordinary expenses, and capital outlays, by services and commodities. Such a classification is similar to that now used in the preparation of the state budget estimates and is sometimes known as a classification by objects of expenditure.

The Expenses of the Activities of Spending Agencies: For management purposes, information relative to the expenses of each activity of a spending money is needed, where the agency is large. Concerning the expenses of an institution, for example, it may be desirable to know how much was expended for each kind of services and commodities and the total ordinary recurring expenses. The total expenses may not be too high but moneys may have been expended in wrong directions to the detriment of the welfare of the inmates or the service which the institution renders.

As indicative of the quality of service rendered and the need for attention to organization, personnel, and methods, information as to the portion of the total expenses devoted to administration, subsistence and general care of inmates, medical care and treatment, instruction, custody, extramural care and treatment, maintenance of grounds, operation of plant, and operation and maintenance of farm respectively, is invaluable to the institution management, to the general management exercised by the central welfare department, and to the budget-making and appropriating authorities. A classification of ordinary recurring expenses by activities discloses in what direction an agency is expending its funds and furnishes basic data needed for the appraisal of the operating plan of the agency. It is important, therefore, that information as to the expenses of the activities of the larger spending agencies be produced.

Expenditures from the Various Funds: The amount and purpose of the expenditures made from each special fund should be disclosed and, in connection with statements of the expenditures of each agency of the government, the amount charged to each fund should be shown.

Complete information as to the expenditures of each fund can best be presented in a statement of operations, wherein the income of a period plus the available resources, or less the deficit of resources, as of the beginning of the period, is compared with the expenditures of the period.

As a general rule expenditures from special funds are not subjected to the same measures of control as are expenditures made from the general revenue fund under specific appropriations of the legislature. For this reason expenditures from special funds should receive special attention.

Unit Cost of Operations: The information concerning expenditures that has been discussed is the basic data for the determination of operating costs. Before it can be used to the fullest advantage in the determination of results achieved as measured against expenditures, however, units of services rendered must be established. Comparisons of the expenses of an institution for a given period against its expenses for a corresponding previous period and against the expenses of other agencies performing similar work are desirable aids to management. But such comparisons cannot be made until the expenses are reduced to a comparable basis. When units of measurement are established and unit costs produced, such comparisons can be made readily and accurately.

The unit of measurement for cost purposes varies widely among the different activities of the state government. A unit of measurement for the services rendered by a hospital may be a patient in attendance for one day. So far as practicable unit costs ought to be produced. Through cost analyses and the appraisal of organization, personnel, and methods, and of the condition of the plant and equipment, standard unit costs can be established to serve as mediums by which actual costs can be judged.

Details Cost Analyses: Officials interested in different phases of the management of the state's affairs require different detailed analyses of certain of the elements of operating costs. For example, a dietitian for one of the larger state institutions is not only interested in knowing how much money was expended during a given period for food, but is also interested in knowing the quantities and the costs of various kinds of food consumed during the period and the unit quantity consumption and cost.

Similarly in connection with highway construction and maintenance, further detailed analyses of expenditures for highway materials are required. Highway materials comprise cement, sand, stone, gravel, etc. The quantities of various kinds of materials consumed and the cost thereof constitute significant data that ought to be made available to the highway department in connection with each project. These are just examples of the kinds of detailed analyses of expenditures that are required for many purposes by the various agencies of government.

Information Produced as to Expenditures: The distinction between disbursements and expenditures is not recognized, and consequently the so-called "expenditures" of any agency include only those claims passed for payment through the office of the state auditor in any period. Obligations incurred but not passed upon until they are presented for payment and the expenditures from funds that remain in the custody of the spending agencies are ignored. The state has no agency that undertakes to produce accurate and comprehensive information as to expenditures. Most of the other requirements for information as to expenditures and costs are either very inadequately met or are not met at all.

Information Required as to Receipts: The cash receipts of the state government as a whole for any period fall into the following classes:

Receipts from income of the period.

Receipts from income of previous periods.

Proceeds of sale of fixed assets.

Refunds of overpayments.

Rebates on expenditures.

Reimbursements of expenditures.

Surplus receipts which include recoveries of amounts due the state that were written off in previous periods; or recoveries of amounts owing that were lost sight of.

Receipts of income of the year in turn fall into two classes. A few taxes and other imposts from which a portion of the income of the state is derived are assessed and collected at the same time, that is, the assessment of the tax or other impost is coincident with its collection. Other taxes and imposts are assessed and then taxpayers are notified, and in due course collections are effected. Thus the income of the state derived from many sources is equivalent to the receipts from the same sources for the same period, but in connection with other sources of income only a part of the amount accruing to the government in any period will be received in actual cash during the period.

In order, therefore, to disclose exactly the amount of the income of each year realized in cash, a statement of receipts from income of the year classified by sources ought to be produced. Such a statement when compared with the statement of income is illuminating. The difference between "receipts from income of the year" and "income of the year" should be found in the balance sheet of the amount of collectible taxes and miscellaneous revenues of the period assessed but not collected, as of the end of the period.

Receipts should also be classified by the units responsible for collection in order that responsibility for collections can be properly placed. They should also be classified by funds in order that the amount of cash from income of the year made available for each fund during a period, may be disclosed.

Receipts from income of previous periods should be classified in a manner similar to receipts from income of the period.

Information as to the other classes of receipts mentioned should also be produced. Full particulars of the kinds of assets sold and the organization units effecting the sales should be made available in the financial reports. Refunds of overpayments should, of course, be deducted from the proper expenditure accounts or the accounts against which the charges were made in the first instance. Similarly rebates and reimbursements of expenditures should be deducted from the relative expenditure accounts. But nevertheless, in order to account for all receipts, refunds of overpayments and rebates and reimbursements of expenditures should be reported as cash receipts. Full particulars concerning surplus receipts should be furnished in the surplus accounts of the funds to which the receipts were credited.

Information Produced as to Receipts: Information as to the segregation of the receipts by funds is maintained by the state treasurer, the state auditor, and the state accountant. The source of the information for this segregation comes to the treasurer from the collecting departments and agencies, both as to the fund affected and as to the source of the receipt. The information relative to the segregation by funds is in turn passed on to the state auditor and the state accountant by means of the official receipts issued by the treasurer to the various collecting agencies. A duplicate of the receipt is furnished to the state auditor and the state accountant is given access to the copy retained by the state treasurer with all the information relative to the source attached. These official receipts are issued by him from day to day as he receives money

and collection items from the various agencies. Just prior to the time of issuing the official receipt the collecting agency informs the treasurer concerning the distribution and the source of receipts. The treasurer receives payments from county treasurers but makes no other first-hand collections except the collection of amounts due the state because of the charge made by the state examiner for the investigation of the records of the various local governmental agencies and the banks subject to his examination.

The state accountant maintains and reports upon the various sources of the cash received by the state but the state auditor does not concern himself with this type of distribution. No allocation of receipts as to income of the current period and to income of previous periods is maintained.

Information Required as to Disbursements: The cash disbursements of any period include payments on account of the expenditures of the period, payments on account of the expenditures of prior periods, refunds of receipts from income of the period and of previous periods, advance payments on account of the expenses of an ensuing fiscal period, transfers among funds, etc.

Concerning disbursements on account of the expenditures of a period, information similar to that which ought to be produced concerning the expenditures of the same period can be and should be made available. That is, the disbursements on account of the expenditures of a period should be classified so as to show the amounts disbursed respectively for:

The ordinary recurring expenses of each organization unit.

The capital outlays of each organization unit.

The ordinary recurring expenses of each major function of government.

The capital outlays for each major function of government.

Each of the several kinds of commodities and services purchased by each organization unit.

Each of the special funds into which the resources of the state are divided.

The disbursements on account of the expenditures of previous periods should be similarly classified. Complete information as to disbursements representing refunds of income of the period and of previous periods should be produced. The sources of the income refunded, and the amount refunded in each case, should be disclosed.

Complete information as to disbursements is a valuable aid in treasury management and in budget making. Moreover, if complete information regarding disbursements and expenditures is produced, much more effective accounting control can be exercised.

Information Produced as to Disbursements: The most complete fiscal reports prepared by any of the central fiscal agencies are those relating to disbursements, but even these leave a great deal to be desired. The state auditor maintains records of the distribution of all disbursements allocated by years, appropriations, and funds. Only insofar as an appropriation may have been made for a specific purpose do his records reveal the object or purpose of the cash outlay.

The records and reports of the state accountant are somewhat more complete in that, in addition to a distribution of disbursements by years, appro-

priations, and funds, he also maintains records of disbursements by agencies, functions, and objects of expenditures in accordance with a classification he has developed.

The distribution of disbursements according to years maintained by both of these officers is not completely satisfactory for report purposes in that all such disbursements are recorded according to the year to which they apply only and no information is reported concerning the year in which the disbursement was made unless it occurred during the year in which the obligation was incurred.

Division of Accounting Functions Between the Department of Finance and the State Operating Agencies: In general it may be said that the accounting records of the various state agencies should be continued to the extent that they supplement rather than duplicate the accounting records and functions of the proposed department of finance. The records of the department of finance would be the official financial records of the state and the records of the various agencies would be subject to reconciliation with them. It is recommended that the various state agencies maintain such cost records or other accounting records as may be deemed necessary by the various agency administrators to enable them to correctly judge the efficacy of their administration. By way of example; almost all departments would find it necessary to keep detail personnel records, other departments might find it necessary to keep detail records concerning collections, others find it necessary to keep detail inventory records of departmental supplies, and larger departments would find it necessary to keep detailed records of their day to day operations as they need information more frequently than it could reasonably be supplied by the department of finance. Regardless of where they are maintained, the department of finance has a vital interest in the availability of adequate records as a means of more effective financial planning and control. It should therefore follow that the records maintained by the various departments should be subject to review on the part of the department of finance, which department should also have the power of requiring reports concerning the results displayed by means of such records.

The department of finance would maintain such records and accounts as are necessary for determining the financial status of the state as a whole and for maintaining budgetary control over the activities of the various state agencies.

When the proposed department of finance has been in operation for a year or more and has developed and installed its procedures, consideration should be given to the centralization in that department of all the accounting for the smaller state agencies and for such of the accounting of the larger agencies as can advantageously be handled centrally.

Purchasing and Property Control:

Purchasing Procedures: The provisions of the statutes relating to purchasing adhere to most of the recognized principles of effective centralized control and the state purchasing department administers most of these provisions in an effective manner. Prices are contracted on a yearly basis or on a shorter period depending upon the nature of the commodity and the condition of the market. Quarterly estimates of needs are requested and secured from the various state agencies and purchases are based upon these estimates. Adequate provision has been made for handling expeditiously the purchases of supplies and materials for which the need cannot be reasonably anticipated. The internal operations of the department allow for ample opportunities to bid on the various items desired to be purchased by a reasonable number and variety of vendors. Adequate records relative to source of supply, vendors, requisitions, purchase orders, bids requested, and bids received are maintained.

The purchasing activities extend to all state agencies except the liquor control board and the state department of public welfare. Separate provision is made by law for the purchasing activities of the liquor control board but there does not appear to be any provision permitting the department of public welfare to maintain separate facilities, nor does the volume of purchasing done by the department of public welfare justify this arrangement. It is recommended that, as soon as practicable, the state purchasing department take over the function of purchasing for the department of public welfare.

The statutes provide for a system of local purchasing of fresh fruits and vegetables and of emergency purchasing of articles or services where immediate delivery is required. Such purchases are under the direction of the state purchasing agent who is required to issue proper rules and regulations governing local purchases of fresh fruits and vegetables but who does not have the expressed authority to issue rules and regulations concerning emergency purchases. The rules and regulations called for by the statutes have not been promulgated and it is recommended that this be done at once. The draft of the proposed fiscal code contains: provisions for the control of local and emergency purchasing which are designed to bring about a more effective control of this type of purchasing than is possible under the present statutes.

In the first stage of the proposed plan of organization for financial administration, which involves no constitutional or statutory changes is put into effect, no radical alterations in forms or internal operating procedures of the state purchasing department would be necessary. The changes required would involve principally the routing of forms and the number of copies of such forms produced. At such time as a new fiscal code is put into effect, however, the forms and operating procedures would have to be revised to conform to the provisions of the fiscal code.

The state has in the past contracted for certain capital improvements. such as the renovation of heating plants of the state capitol building and of various institutions, under a plan whereby payments are made on an installment plan. The amount of each such contract was established on the basis of competitive estimates. The amount of each installment is determined by the difference between the present monthly cost of fuel and the average cost for fuel in the comparative month in each of three preceding years, after due allowance for severity of weather and new demands for heat or power. In the event this difference, which is paid to the seller, does not total the amount on the original contract by the end of a fixed period, usually three or four years depending upon the size of the installation, the seller has no further claim against the state. Conversely, however, the seller's claim against the state is satisfied as soon as the installments equal the amount of the contract even though this may be a shorter length of time than specified in the contract. The state seems to be adequately protected.

The circumstances, in some cases, which brought about the need for renovation arose because the heating systems formerly were of the high pressure type and through use had reached a condition requiring installation of new boilers or conversion of the old boilers to low pressure systems.

Use of Specifications and Testing: The statutes are silent concerning the use of specifications in state purchasing. Nevertheless, the state purchasing department has recognized the need for specifications in purchasing several commodities such as coal, road oil, gasoline, hay, and flour. All purchases should be made on the basis of standard specifications, except such materials and equipment as must be of a specific make and for which the manufacturer's catalog number of symbol may be used to describe the article desired, and except

such standard commodities as are acceptable in a rather wide range of quality, size, workmanship, and component materials, and for which the price in relation to the value is more important than that the commodities conform to definite specifications.

Basic specifications can be obtained from a large number of governmental and business organizations. The United States department of commerce has published a rather complete directory of commodity specifications in use. The state purchasing department at present is using specifications of the United States bureau of standards in those instances where such specifications are applicable.

The department has the statutory authority to require any state department or institution having the facilities to perform any tests the state purchasing agent may deem necessary to determine the character and quality of the articles and commodities to be purchased and used by the state. This authority has been exercised from time to time whenever questions as to the quality of commodities have developed.

Public Printing: The state purchasing agent has exclusive power, subject to the consent and approval of the governor, to contract for all printing for any purpose for the state. The agent has followed the policy of letting contracts for printing upon an annual basis after securing bids. The contracts are based on estimates of the annual printing needs obtained from the various state agencies. The legal restrictions relating to printing other than those found in the state purchasing statutes are such that competition is virtually stifled and all bids received quote the "Franklin List" less 10 percent. The restrictions include provision for a union lable on all printed matter and provision for purchasing from concerns within the state unless there is a 10 percent differential in price favoring an out-of-state concern.

One effect of these restrictions is to constitute a serious handicap to the installation of modern office methods in some cases. Various reproduction processes have been developed in recent years for the production of specialized forms. It is understood that these processes are not available in any Montana printing establishments. In addition to the recognized printing trades, they involve trades not included in, or affiliated with, the organizations which control the use of the standard union printing labels. Their use is, therefore, precluded by the present statute. Some types of forms produced by these processes are particularly valuable in saving the time of employes in routine operations and many of them are in use in commercial establishments in Montana.

It would seem that there would be ample justification for a statutory amendment to exclude from the restrictions on printing such reproduction processes as are here referred to.

The state board of examiners has been granted the authority by statute to grant or deny all applications for the printing of reports of the various state agencies prior to the time such report may be printed. This provision offers an additional control over public printing and has resulted in eliminating much printing.

The draft of the proposed fiscal code contains provisions designed to make possible an even more effective control over public printing.

Property Control: Several of the individual state agencies have established more or less adequate systems of control over items of equipment and other state property assigned to them. The most notable of these agencies are

the highway commission, department of public welfare, unemployment compensation commission, and liquor control board. Most of the other agencies have not established any systematic control of equipment and other property.

The present state purchasing department has been given a measure of authority by the legislative assembly to exercise control over the equipment and other property of the state but thus far no means of exercising this authority have been provided and the grant of authority is wanting in several respects.

The proposed division of purchases and public property should be given authority and power to prepare a classification scheme; to see that all state property is marked so as to be identified; to establish property records and keep them current; and to require, supervise, and direct the making of periodic physical inventories of all properties. The same agency should be required to inspect departments and institutions to discover unused or improperly used and neglected equipment.

A property officer should be designated in each department and institution in order to direct the necessary procedures involved on the part of each such state agency. The head of each agency would, of course, be the responsible officer for all state property assigned to his agency but the accountability for such property could be delegated to another officer of the agency if desired.

Stores Control: The state purchasing department does not maintain any centralized stores records or storerooms for central stocks of supplies. At most of the institutions some form of accounting control of consumable supplies and materials is in effect. The department of highways and the department of public welfare also maintain such a system of stores control and the state liquor control board has an extensive system in effect. Except insofar as these individual agencies may have adopted them, no rules of procedure for receiving, storing, issuing, and accounting for supplies and materials have been promulgated.

This condition has hampered somewhat the establishment of definite policies for the purchasing of supplies and, no doubt, there have been occasions when supplies and materials were purchased that would not have been purchased if complete inventory information had been available to the various agency heads and to the state purchasing agent. In general, control of supplies and materials is not tied in with such general and cost accounts as are maintained.

A uniform system should be prescribed for all agencies; perpetual inventories should be centralized in the proposed division of purchasing and public property by means of systematic reporting on the part of the various using agencies; and general controlling accounts should be established in the proposed division of accounting and budgetary control.

State Supervision of Local Government Finance:

Problem of Providing Local Financial Administration: Public attention is focused upon the state government as a spending agency because it is a large unit in which the people of the whole state have a stake and because it is more remote from the people than are their own local governmental units and easier for critics to attack without incurring official displeasure or without the risk of being deprived of any of the benefits it confers. Yet the local government units in the state collect and expend at least one and a half times as much money as does the state government.

It is obvious that any attack upon the high cost of government with a view to lightening the tax burden or improving the service rendered is not likely to succeed if concentrated on only one layer of government. It is relatively easy to attack the cost of the state government and to promote economical and efficient operation of state services, but the local governments present a different and infinitely more difficult problem because of their numbers, their diversity, the wide range of conditions under which they operate, and the emphasis upon home rule.

Effective "expenditure control," using this term in its broadest sense, is a function of every governmental unit and the greater the degree of efficiency attained in controlling expenditures the less interference there is likely to be from a superior government or other outside source. Yet the greater the emphasis upon local home rule, the greater is the damage to the essential basic unity of the state, particularly in financial matters. To the extent that local financial independence and isolation develop, state-wide financial stability disappears. Any system that magnifies the position of the local units and minimizes the state inevitably results in inequalities of government and governmental services in different areas and precludes a proper distribution of the burden of the cost of government. That the general welfare of the people of the state is superior to any local interest is recognized in many states by legislation tending to equalize the educational opportunities in all sections of the state by action at the state level and such legislation as that subjecting the financial affairs of the local governments to the post audit of a central state agency.

Of courrse responsibility for the efficacy of financial administration in local governments rests primarily with the local administrators. Therefore it is unfortunate that many of the local governments cannot equip themselves to exercise effective expenditures control nor to devise ways and means of measuring the results achieved by government services in return for the money expended.

But since all local governmental operations are subject to state laws, the state is in a position to help local governments to help themselves by laying down basic principles of financial administration, by assisting local governments in installing modern expenditure control devices, by establishing standards of service and units for the measurement of services rendered, and by prescribing uniform accounts and uniform terminology in financial matters. In state supervision there should be a judicious combination of aid and guidance where it is needed and careful appraisal of results in the light of established standards, leaving the responsibility for operation always with the local authorities.

No form of state supervision is likely to succeed unless the laws relative to local governmental services are coherent and consistent. When the local authorities are compelled to function under a complex and confused body of inconsistent and impractical state laws, there is no real basis for cooperation between the state and local authorities.

Present Extent of State Supervision: The statutes impose many duties concerning the supervision of the financial operations of local governmental units upon the state examiner. These duties cover several activities, as follows:

Issuing rules and regulations, prescribing forms, defining expenditures, and establishing cost and accounting systems for counties, cities, and towns in order to implement the budget acts applicable to these governmental units.

Prescribing and establishing general methods and details of accounting for the receipts and disbursements of the moneys of counties, cities, towns, and school districts.

Examining, at least once a year, the books and accounts of all county, city, town, and irrigation district officers. School districts must be examined if the school trustees of any district request the service.

The statutes appear to be sufficiently comprehensive as to subject matter and there is no doubt that many beneficial results have been obtained under them, yet in several respects they fail to provide for an effective supervision by the state authority.

The chief deficiency is that the state agency does not have any real enforcing authority, except in case of irregularities in handling cash in which event the officer being investigated may be suspended from office. In all other cases the state examiner must depend upon local enforcement. In the past this has proved to be a serious handicap.

Another deficiency, so far as state supervision of local finances is concerned, lies in the fact that no state agency has the authority to review local budgets before adoption by the local units.

There are also relatively minor difficulties that hamper effective state supervision of local finances in that the statutes relating to such supervision are vague as to the extent of control actually intended to be exercised and that this vagueness appears to carry over in the matter of expenditure control on the part of the local governmental units. The result is that the state examiner's office is operating under a serious handicap and the local officials are faced with a confusing body of law under which they must administer the fiscal affairs of their units.

While the matter of supervision of the financial affairs of counties, cities, and towns is not in all ways provided for in a satisfactory manner, the situation relative to the school districts is infinitely worse in that there is no supervision at the state level and very little at the county level. Each school district is a separate entity supposedly self-sufficient within itself and not subject even to postaudit unless it chooses to be. This condition is conducive to inequalities both as to educational opportunities and as to distribution of the tax burden to support the school system. In addition, the probability of the inefficient expenditure of public money and of waste and extravagance is multiplied many times.

It is important to note that almost without exception the accounting systems of the local governmental units do not recognize the basic differences between disbursements and expenditures nor is there an effective system of budgetary control maintained. The undesirability of recording the financial operations of the state government upon the so-called cash basis and the evils of ineffective budgetary control are commented upon at length in this report and these comments apply with equal force in relation to recording the fiscal affairs of local governmental units.

Proposed Organization for Supervision: The office of the state examiner is established by the constitution. Unless it is decided, as previously suggested, to eliminate the constitutional provision establishing the office it would continue to exercise supervision over local government financial matters. The alternative is to assign this responsibility to a division of local government service in the proposed department of finance or department of revenue.

No matter where it is placed in the organization plan, either as the department of local government service or the division of local government service, it is recommended that to the agency by assigned, by statute, the functions of:

> Investigating and examining the accounts and operations of all local governments and local government officers in the state, other than municipalities; prescribing forms and methods of account keeping aud reporting and of budgeting and other financial operations; and rendering counsel and assistance to such governments and officers in such matters and in connection with investments, insurance, purchasing, and the development of standards and improved methods of performance of local government functions.

Extent of Change Necessary for Effective Supervision: Irrespective of the kind of organization provided for financial administration in local units, of the fiscal laws in effect, or of the extent of state supervision provided, no general and substantial improvement in financial administration can be expected unless guidance and assistance based upon clearly defined lines of responsibility and authority is furnished to the local authorities. It is, therefore, recommended that the statutes be amended to clearly empower the state agency to do the following things with respect to county, city, town, and school district governments:

> To establish a unified system of accounting for all local governments in the state; to issue regulations to govern the form and content of budgets; to require the inclusion in local budgets, for comparison, of figures showing unit and comparable cost data; to study actual local government costs and to develop cost standards; to receive and examine copies of all local budgets; to assist the local units in perfecting their budgeting procedures; to require compliance with the fiscal laws of the state; to assist the local units in perfecting their organization and procedures for preauditing and for the current control of expenditures; to compile and publish reports on the finances and financial operations of local governments; and to audit the affairs of each local governmental unit in the state at least once each fiscal year.

This does not mean at all that the central state agency is to be given power to enforce its will upon local authorities, but it does mean that the statutes relating to state supervision of local finances be clarified to define the extent of state control and that adequate provision be made to enforce proper budgeting and prudent spending on the part of the local officials. It is believed that review of financial plans of the local units by the state examiner with the power of recommendation, and the requirement that such recommendations pertaining to each local government be adopted or rejected by a vote of the governing body of such local unit after a public hearing, will have a salutary effect.

The extent of change necessary to provide effective supervision over the financial affairs of the school districts does not lie in alterations of the statutes concerning their financial affairs alone. The whole concept of the administration of public schools in Montana is at odds with the modern concept of public school administration and no truly effective central supervision of the financial affairs of the many individual school districts can be obtained until and unless the major problem of reorganization is solved. Until then there can be little certainty of efficiency or economy in the operations of the local school districts in the state.

Summary of Recommendations: *

The recommendations expressed or implied in this report, if adopted, would provide for a complete and integrated system of financial administration for the state and would establish a form of organization suitable for the operation of the system. By their very nature these recommendations do not lend themselves very well to summarization. But the main points in the whole proposal are those set forth in the following paragraphs. They are divided into three groups, each group representing an orderly step in a program for the gradual adoption of the whole plan in a way to eliminate unnecessary delay and to provide the maximum possible benefit from each successive step. Briefly stated, the steps are (a) those that can be taken by administrative action; (b) those that can be taken only by statute; and (c) those that require constitutional amendment.

To the extent that they can be summarized, the recommendations in each of the three groups are:

Recommendations Not Requiring Legislation:

(1) That the board of examiners set up a central accounting organization and system under the state accountant; that the state accountant be instructed to take all necessary steps to begin the operation of such system of July 1, 1942, at the beginning of the fiscal year; and that the state accountant be designated as the executive officer of the board in handling financial matters.

(2) That the board of examiners adopt, effective July 1, 1942, the requirement that all claims presented to it for approval shall have had the approval of the state accountant, as to the availability of funds and as to the propriety of purpose, before the obligations represented by the claims were incurred.

(3) That, as of July 1, 1942, the staff and equipment of the board of examiners used in handling claims presented to it for approval be transferred to the office of the state accountant.

(4) That the accounting system authorized by the board of examiners provide for

(a) Maintenance of all fiscal records now required by law to be maintained by the state board of examiners and the state accountant.

(b) Easy compilation of all financial reports now required by statute of the state board of examiners and the state accountant as well as such other reports as will be found necessary for an effective control over the financial affairs of the state government within the limits permitted by the statutes.

(c) Distribution of expenditures by appropriations, funds, and objects of expenditure.

(d) Distribution of receipts by funds, sources of revenue, and collecting agencies.

(e) General controlling proprietary and operating accounts for each fund under the control of the state board of examiners.

* For recommendations approved by Governor's Committee on Reorganization and Economy and submitted to the Legislature, see printed Reorganization Report.

(f) Budgetary control accounts insofar as such accounts are permitted to be effective under the present statutes.

(g) Encumbering of fund and appropriation balances with the amounts of approved and anticipated expenditures and clearing such encumbrances from the balances at the time the claims are presented for payment and are charged to the fund and appropriation.

(h) Ascertaining the amount of accounts payable at any time during a fiscal period for any fund under the control of the state board of examiners.

(5) That the procedures in the treasurer's office be so recognized as to make it unnecessary for the clerk in charge of the accounting records to have anything to do with the handling of cash.

Recommendations Requiring Legislation:

(6) That the concept of the meaning of an "appropriation" be revised to recognize it as a legislative authorization of the maximum amount that may be expended, subject to administrative determination by the governor or his financial aide of the amount of the expenditures that may be made within such maximum limit; and that the proposed department of finance be given authority to hold expenditures to amounts less than the maximum amounts to which appropriations have limited them.

(7) That provision be made through a single contingent appropriation from each fund for meeting emergency and unforeseen demands instead of through appropriations to the various agencies somewhat in excess of estimated actual requirements; and that expenditures not authorized by appropriation, commonly called deficiency expenditures, be absolutely prohibited.

(8) That the organization for the administration of the state's finances be revised through legislation that would accomplish the following:

(a) Create a department of finance, headed by a director appointed by the governor, preferably with the confirmation of the senate, as the chief financial agency of the state government with authority actually to manage the state's financial affairs in accordance with the plan further detailed in other recommendations, and to take over the system set up by the state accountant under previous recommendations.

(b) Eliminate the purchasing department as a separate agency and transfer its functions to the department of finance.

(c) Abolish the office of state accountant and transfer its functions, except postauditing, to the department of finance.

(d) Remove the numerous routine duties assigned to the board of examiners by statute and make that board a policy-determining board with quasi-legislative and quasi-judicial functions in relation to financial affairs.

(e) Make the state auditor an independent postauditor responsible for the postaudit of the accounts of all state offices, departments, and other agencies.

(f) Remove from the state auditor all responsibility for participation in the day to day operation or financial affairs of the state government and all statutory assignments of ex-officio duties.

(g) Remove from the state examiner all statutory authority and responsibility for the audit of state agencies, and for bank examination.

(h) Establish an audit committee of the legislative assembly to whom the state auditor shall report; and make it responsible for review of financial reports, audit reports, etc., to see that the executive branch of the government conforms to the plans adopted by the legislative assembly.

Note: Recommendations in the report of this series dealing with the general organization structure of the state government cover such matters as the disposition of the non-fiscal functions of the state auditor and the state examiner. They also provide for further functions that might be assigned to the department. These recommendations are omitted in this report because they are not an integral part of the proposed plan of financial administration.

(9) That a comprehensive fiscal code be enacted to provide for an integrated system of fiscal procedures and that existing piecemeal legislation dealing with matters covered by such fiscal code be repealed.

(10) That responsibility for making all investments of state funds or funds for which the state is responsible be transferred to the state treasurer with the qualification that all investments shall be made only with the approval of the board of finance (board of examiners).

(11) That the proposed department of finance be assigned the following specific functions:

(a) Budgeting, as a staff service to the governor.

(b) Accounting, including the prescribing of the accounting procedures for all state agencies, and fiscal reporting.

(c) Current auditing, embracing the preaudit of expenditures; current audit control of cash, cash receipts, and receivables; and control over the incurring of obligations.

(d) Issuance of warrants.

(e) Purchasing and property control.

(f) Central office services, including central mail and messenger service.

(g) Such other functions as may be assigned in connection with the general plan of state organization discussed in another report of this series.

(12) That the department of finance have two major divisions, as follows:

Division of accounting and budgetary control, headed by a controller, and
Division of purchases and property control, headed by a purchasing agent;

and that the director of finance serve personally as budget officer.

(13) That the proposed fiscal code eliminate the exceptions now made whereby some agencies do not deposit their collections in the treasury; that it provide adequate safeguards and controls over the handling of all cash; and that it fix centrally the responsibility for follow-up to see that collections are prosecuted.

(14) That the proposed fiscal code provide for the development of a comprehensive working financial plan covering all funds, through the following steps:

(a) Preparation of a budget report to the legislative assembly setting forth the proposed plan;

(b) Adoption of the plan, with any desired modifications, by the legislative assembly, and the enactment of appropriation and revenue measures;

(c) Preparation of a complete operating state budget based on the original budget report, but modified and changed to reflect the action of the legislative assembly.

(15) That the proposed fiscal code provide for the administration of the budget through a system of quarterly allotments, control over the incurring of obligations, and preaudit of claims before payment.

(16) That the proposed fiscal code provide for a complete, modern accounting system designed to produce adequate information as to:

(a) Current financial condition, including both receivables and payables, as to each fund;

(b) Comparisons of actual performance with financial plans both as to receipts and to expenditures;

(c) Sources and amounts of income;

(d) Expenditures classified by purpose; by agency; by ordinary recurring expenses, extraordinary expenses, and capital outlays; by types of commodities and services purchased; by activities, where needed; and by funds;

(e) Unit costs and cost analyses where required;

(f) Receipts properly classified;

(g) Disbursements properly classified.

17) That, as the proposed department of finance becomes established and able to handle its work expeditiously, accounting be centralized in the department and eliminated from all small agencies and such of the larger agencies as lend themselves to such centralization.

18) That the proposed fiscal code provide the procedure for purchasing and for routing purchasing forms.

19) That the proposed fiscal code provide for the classification and identification of state property, and for keeping of property control records.

(20) That the proposed fiscal code provide for the establishment and installation of stores control records and accounts.

(21) That the statutes be clarified to exclude from certain restrictions on printing the use of reproduction processes not available in Montana printing establishments and not subject to the union label controlled by printing trades.

(22) That the number of special public expendable funds be reduced by merging as many as practicable of these funds with the general fund; and that, where necessary to preserve the operation of the benefit theory, accounting procedures and controls be substituted for the special funds as a means of holding expenditures within the limits of revenues from particular sources.

(23) That the state examiner's authority with respect to local governments be clarified and that it be extended to school districts. That the state examiner be definitely empowered to establish a unified system of accounting for all local governments in the state; to issue regulations to govern the form and content of budgets; to require the inclusion in local budgets, for comparison, of figures showing unit and comparable cost data; to study actual local government costs and to develop cost standards; to receive and examine copies of all local budgets; to assist the local units in perfecting their budgeting procedures; to require compliance with the fiscal laws of the state; to assist the local units in perfecting their organization and procedures for preauditing and for the current control of expenditures; to compile and publish reports on the finances and financial operations of local governments; and to audit the affairs of each local governmental unit in the state at least once each fiscal year.

Recommendations Requiring Amendment of the Constitution:

(24) That the constitution be amended to eliminate all reference to the board of examiners; that, by statute, there be substituted for the board of examiners in so far as its fiscal functions are concerned, a board of finance with the powers, duties, and responsibilities specified by the proposed fiscal code; and that all routine duties of the board of examiners in financial matters be assigned by statute to the proposed director of finance.

(25) That the constitution be amended to eliminate all reference to the state board of land commissioners.

(26) That the constitution be amended to eliminate all reference to the state depository board; and that, by statute, the selection of depositories be made the responsibility of the state treasurer subject to the approval of the board of finance.

(27) That the constitution be amended to eliminate the wholly illogical provision that the justices of the supreme court perform a function in the executive department through their supervision of investment of state funds.

(28) That the constitution be amended to remove the auditor from the board of pardons.

(29) That the constitution be amended to relieve the state examiner of responsibility for the audit of the accounts of the state treasurer and the supreme court clerk; and that consideration be given to the repeal of the entire section establishing the office of state examiner, leaving to the legislative assembly the authority to provide for auditors of local government accounts.

(30) That the constitution be amended to eliminate the provision requiring approval of certain contracts by the governor and the treasurer.

(31) That consideration be given to a possible further amendment to the constitution to provide for selection of the state auditor by the legislative assembly rather than by election.

APPENDIX I. STATE BOARD OF EXAMINERS

Introduction:

The state board of examiners was created by the constitution. Its membership comprises the governor, the attorney general, and the secretary of state, all of whom serve ex-officio with no additional compensation for discharging the duties and responsibilities which devolve upon them by reason of their membership on the board. By statute, the board itself is ex-officio a "board of supplies and a furnishing board."

Functions and Activities:

The constitution vests in the board the power and responsibility of examining all claims against the state, except those for salaries or compensation of officers fixed by law. The constitution also charges the board with the responsibility of performing such other duties as may be prescribed by law.

The legislative assembly has placed numerous additional duties and responsibilities upon the board, most of which relate to financial administration. Due to these assignments of duties and responsibilities, the board has become the principal fiscal agency of the state government.

The statutes require the state board of examiners to date, number, file, and allow or reject all claims against the state in the order of their presentation. They must also approve all valid claims against the state for which there is no money available before these are presented to the legislative assembly for appropriations to cover them.

The state board of examiners must publish a financial statement for the state and must examine the records of the state treasurer and state auditor. The board looks to the state accountant actually to perform the necessary actions to discharge these functions. This seems to be a proper procedure inasmuch as the statutes require the board to appoint a state accountant and assign him duties.

There are many confusing provisions in the statutes relating to public printing and to the approval of contracts but the gist of the matter is that the state board of examiners must approve contracts for the purchase of printing. The state board of examiners must also pass on all contemplated printing in order to judge the necessity for it. In addition they must also approve requisitions for capital outlays prior to the time any contract incurring an obligation for such capital outlay is entered into.

The budget act places full responsibility upon the state board of examiners for the development of the budget report to the legislative assembly. The board in turn has delegated the ministerial functions involved in the compiling the budget document to the state accountant.

The state board of examiners is also charged with a great many miscellaneous matters relating to financial administration such as: passing on traveling expenses for state employes, fixing bonds of all officers not fixed by law, and establishing contingent revolving funds (petty cash funds) for the use of the various state agencies.

Organization and Staff:

The state board of examiners has found it necessary to develop a small staff to assist it in performing the functions assigned to it relating to financial administration. In a sense the state accountant and his staff might be considered as a part of the staff of the board of examiners but a separate description of this office is presented as Appendix III. In addition to the state accountant the board has, as its staff, the positions shown in the following tabulation:

Title of Position	Annual Compensation
Clerk of the board (about 64 percent of time)	$3,600
Assistant clerk	2,700
Clerk and stenographer	1,800
Special clerk (at department of public welfare)	2,100

As indicated in the tabulation, the clerk of the board devotes an estimated 64 percent of his time to matters concerning the fiscal responsibilities of the board. The remainder of his time is devoted to duties concerning the operations of the board of pardons, board of prison commissioners, and board of commissioners for the insane. The special clerk has been placed with the department of public welfare in order that the state board of examiners will have a direct representative with that department to report to it on the fiscal affairs of the department.

Policies and Procedures:

The state board of examiners has come to be regarded as the central authority of the state on many subjects but particularly those relating to financial matters. This has come about by reason of the many functions of financial administration that have been imposed on the board by the legislative assembly. At present, in those fiscal affairs wherein there is ambiguity, the board is consulted or assumes authority.

In dealing with the administrative expenditures of the department of public welfare the board has made an exception to its normal procedure. The department of public welfare is permitted to maintain a purchasing agent, to maintain its own bank accounts, and to draw its own checks in payment of administrative expenses. The board has appointed a special clerk to act as its representative with the department of public welfare. This clerk concerns himself principally with the reconciliation of the bank accounts and the checking of disbursement vouchers.

All other state agencies, except those specifically released by law, are required to follow a normal procedure of clearing all administrative financial matters through the purchasing department, where purchases are involved, and through the state board of examiners.

The state board of examiners exercise the only preaudit of obligations that is conducted in the state. It is required by law to do this on requisitions involving capital outlay, printing costs, and travel out of the state.

Expenditures:

As has been said, the members of the state board of examiners receive no compensation directly attributable to their membership on this board. Since the membership of the state board of examiners is, in some cases, the same as the membership of certain other boards of the state government, all needing a part-time staff to assist them in carrying out their functions, there has been developed a consolidated staff to assist all these boards. The expenditures for operations have not been segregated between these various boards and it is, therefore, impossible at this time accurately to state the separate cost of operations of the state board of examiners. A fair estimate of this cost, eliminating the salary of the special clerk with the department of public welfare, which salary is paid by that department, would be $8,000. Appropriations that average $12,000 for recent years have been made to meet all the expenditures involved in carrying out the activities of the various boards.

APPENDIX II. STATE AUDITOR

Introduction:

The state auditor is one of the seven elected constitutional officers in the executive department of the state government. He is elected for a term of four years and the qualifications for the office as set forth in the constitution are that the incumbent:

Shall have attained the age of twenty-five years.
Shall reside at the seat of government during his term of office.
Shall be a citizen of the United States.
Shall have resided within the state two years next preceding his election.

The salary of the auditor is fixed by statute at $3,600 a year. In addition to this amount he also receives, by statute, $600 a year as insurance commissioner.

Under the constitution the state auditor is a member of the board of pardons and of the state depository board and under the general statutes he is a member of the industrial accident board and the insurance commission. He is ex-officio commissioner of insurance and investment commissioner.

Functions and Activities:

The state auditor is directed by the constitution to "perform such duties as are prescribed in this constitution and by the laws of the state."

In addition the statutes give the state auditor general financial duties and responsibilities. Originally the state auditor was charged with a great number of these duties and responsibilities but, due to the enactment of legislation that assigned some of them to other state officers and repealed by implication the assignment of the functions to the state auditor, he is, at present, concerned only with the following functions of financial administration:

Drawing, recording, and accounting for all warrants issued in payment of claims.
Auditing all claims.
Keeping an accounting with the state treasurer relating to all state money held or received by the treasurer and all disbursements of such money.

He has other duties as investment commissioner and commissioner of insurance, ex-officio, which are discussed in another report of this series.

Organization and Staff:

The work of some of the staff of the office of the auditor is divided between those activities which relate to financial administration and those relating to the duties connected with the various other functions discharged by the state auditor in his ex-officio capacities. The estimated percentages of time spent on financial administration are shown in parentheses in a tabulation of that part of the staff of the office of state auditor which is engaged in duties relating to financial administration. In this tabulation the annual compensation shown is the total yearly salary received by each member of the staff. As of September, 1941 the staff was as follows:

Title of Position	Annual Compensation
State auditor	$4,200
Chief clerk (insurance) (50 percent of time)	2,100
Acting deputy auditor	3,000
Chief clerk (temporarily vacant)	2,700
Warrant clerk (4)	1,500
Stenographer and clerk (70 percent of time)	1,500
Clerk (40 percent of time)	1,800
Cashier (10 percent of time)	1,620

In the case of the state auditor and the deputy auditor no accurate estimate could be secured of the time devoted to financial administration.

Warrant Writing:

The state auditor is charged by law with the duties and responsibilities involved in writing warrants for the payment of claims approved by the state board of examiners. This activity of necessity involves the development and maintenance of records of the warrants written and the checking of the claims for proper authority to pay before the warrants are written.

The state auditor maintains a warrant register of all warrants written. This register is produced by a separate operation after the warrants are written but before they are released. The register shows the date, number, amount, payee, and fund from which payment is to be made for each warrant as does the warrant itself.

The procedures for writing the warrants are involved and cumbersome. The warrants are typewritten and go through three separate machines - the

check protector, the seal press, and check signer - after the typing operation. No record is produced, except a duplicate of the warrant, at the same time that other operations are performed. A great number of adding machine operations are performed at various stages to insure the accuracy of the work.

The possibility of improving and modernizing the warrant writing procedures by the installation of equipment to write the warrants, produce the warrant register, and take necessary totals in one operation has been considered but funds have not been made available for the purchase of such equipment. For the present the procedures, though involved and cumbersome, are on the safe side in that they were deliberately chosen to place safeguards around this operation.

The state auditor is responsible for reconciling the outstanding warrants each month and is also responsible for maintaining a record showing to whom each warrant was delivered after having been written.

Maintenance of Records:

The state auditor must keep an accounting with the state treasurer for all the receipts handled by that officer and for the disbursement of such funds. In order to do this properly it has been found necessary to keep accounts of receipts and disbursements by funds and appropriations, together with controlling accounts over warrants issued and paid. Reference is made to activity under various headings in the main text of this report.

Receipts:

The state auditor as a fiscal officer is not a collecting officer. In his ex-officio capacities he is charged with the responsibility of making certain collections of revenue. These activities are discussed in other reports of this series.

Expenditures:

The expenditures of the office of the state auditor relating to financial administration were reported for the fiscal year ended June 30, 1940, in the "1941 Legislative Budget", as follows:

Class of Expenditure	Amount
Personal services (This includes $3,600 salary of state auditor and $82 salary of temporary employes)	$15,102.69
Other current expense	2,963.53
Capital outlay	290.10
Total	$18,356.32

While these figures are close approximations of the cost of discharging the auditor's function of financial administration, they cannot be considered as exact. There is a great deal of interchange of staff among the various functions of the office and it is not considered feasible to develop a clear cut allocation of expenditures for the various functions.

APPENDIX III. STATE ACCOUNTANT

Introduction:

The state accountant's office has been in existence since 1909 at which time legislation was enacted to provide for the office and the duties assigned thereto. Since that time the board of examiners has added duties and responsibilities to the office, the most notable of which are the duties and responsibilities in connection with the compilation of the legislative budget.

The state accountant receives his appointment from the state board of examiners for a term of four years unless sooner removed from office by action of the board. The salary of the state accountant is $4,000 per year and is fixed by statute.

The state accountant is ex-officio a member of the insurance commission and of the governor's committee on intergovernmental cooperation. He also has been assigned the duties and responsibilities of a chief budget officer by the state board of examiners to the extent that such assignment and duties are possible under the budget act.

Functions and Activities:

The state accountant is charged by law with certain functions relating to financial administration, particularly with the duty of prescribing general methods and details of accounting for certain institutions, examining at least once each three months the books and records of these institutions, and reporting the result of these examinations to the state board of examiners. The institutions covered are listed as follows:

University of Montana (presumably including all units)
State Orphans' Home
Montana School for Deaf and Blind
State Reform (industrial) School
Soldiers' Home
State Prison
Montana State Fair
State Insane Asylum

In addition, the statutes give the state board of examiners the power to assign additional duties and responsibilities to the state accountant as they see fit. Operating under this power, the state board of examiners has delegated to the state accountant most of the duties and responsibilities arising because of the budget act.

Due to his familiarity with the information contained in and used in developing the legislative budget, the state accountant is called upon to serve the legislative committees considering the appropriation acts.

Organization and Staff:

The state accountant personally conducts all the examinations made of the various state institutions under his jurisdiction. There is a small

central office staff attached to his office for the purpose of maintaining the necessary accounting records, assisting in the compilation of the budget, and typing reports. The staff of the office, as of September, 1941, is shown in the following tabulation:

Title of Position	Annual Compensation
State Accountant	$4,000
Accountant (2)	2,100
Secretary	1,800

Policies and Procedures:

The provisions of the statutes requiring the state accountant to prescribe accounting methods and procedures, and to examine into the fiscal affairs of certain state institutions are, as far as they go, a direct duplication of the provisions which require the state examiner to perform similar duties for all state institutions. The duplication of effort is avoided by the present state accountant and state examiner through the simple expedient of deputizing the state accountant as a member of the staff of the state examiner without pay. The state examiner then accepts the reports on the institutions made by the state accountant as his own.

In discharging the duties and responsibilities delegated to him by the state board of examiners relative to the compilation of the legislative budget, the state accountant has found it necessary to install and maintain a set of accounts which reflect receipts and disbursements. The receipts are distributed according to funds and sources. The disbursements are distributed according to funds and appropriations and the unexpended balances of such funds and appropriations are currently maintained on a cash basis. In addition, a distribution of disbursements by governmental agencies and by objects of expenditure is developed to be used as a source of information at such time as the legislative budget is compiled. The classification of the objects of expenditures was developed by the state accountant to meet this need for information.

The information developed by the state accountant concerning the fund and appropriation balances is frequently used by the state board of examiners in passing upon claims presented to them.

The state accountant checks the accounts of the state treasurer and the state auditor each month for the state board of examiners. This work is performed in connection with maintaining records necessary for the compilation of the legislative budget.

Expenditures:

During the fiscal year ended June 30, 1940, the cost of operating the office of the state accountant was $10,933.98, of which $10,000 was for salaries and $933.98 was for other operating expenses. The entire cost of operation is borne by legislative appropriation made for this purpose.

APPENDIX IV. STATE PURCHASING DEPARTMENT

Introduction:

The state purchasing department was created by the legislative assembly in 1921. The head of the department is the state purchasing agent who is appointed by, and holds office at the pleasure of, the governor. His salary is fixed by law at $5,000 a year. Prior to the creation of the department, purchasing was done by the heads of the various state agencies and institutions. Such purchases were subject to the approval of the state board of examiners. This method of purchasing proved to be unsatisfactory and was the cause of the legislation creating the state purchasing department.

Subsequent to the establishment of the department the legislative assembly of 1923 enacted legislation, which added to the duties of the department relating to the control of state property and which clarified certain provisions relating to the sale of state property and of the produce of the state institutions. The 1923 legislation also contained a provision permitting emergency purchases by the various state agencies.

Functions and Activities:

The statutes of Montana confer upon the present state purchasing department all the duties and responsibilities relating to the purchase of supplies, materials, printing, and equipment for all state agencies, except the liquor control board for which separate provision is properly made. The only modifications of this authority are, first, that the state board of examiners must pass on all contemplated purchases of equipment before such purchases are negotiated, second, that all contracts are subject to the approval of the governor, and third, that the state board of examiners may provide "contingent funds" (petty cash accounts) for any state agency to be used in the payment of urgent expenses. Purchases made from such contingent funds are subject to approval by the state board of examiners. Contrary to the statutes, the state department of public welfare maintains separate purchasing facilities.

The state purchasing statutes also permit a system of emergency purchases under which the various state agencies are permitted to purchase fresh fruits and vegetables and, in cases of immediate necessity, other items directly from vendors. Such purchases are later to be confirmed by the state purchasing agent who is required by law to issue rules, regulations, and instructions relating to such purchases. These rules, regulations, and instructions must be approved by the state board of examiners prior to issuance. Such rules have not been formally issued.

As an auxiliary function the department has the duty of selling surplus or obsolete assets of the state, subject to the approval of the governor. The state purchasing agent also has the responsibility of selling surplus products produced by the various state institutions.

The control of the property of the state, other than real estate and investments, is vested in the state purchasing department and the statutes require that the department develop and maintain complete inventories of all personal property belonging to the state.

The state purchasing agent is required by law to make a sworn statement on all valid claims on account of contracts and purchases negotiated by him. The content of this sworn statement is not noted in the law and in actual practice the claims are examined by the staff of the state purchasing department for agreement as to price and quantity after which they are stamped "approved" with the date of such approval.

The state purchasing department is empowered by legislation to maintain warehouses. This power has never been invoked, as it has been considered more economical to have goods stored in the storerooms of the various institutions. Carload shipment of food supplies are routed to the insane asylum at Warm Springs, Montana, and are distributed to the other custodial institutions from that point.

Organization and Staff:

The internal organization of the state purchasing department as of September, 1941 is shown in the tabulation below:

Title of Position	Annual Compensation
State Purchasing Agent	$5,000
Assistant state purchasing agent	3,600
Clerk-stenographer	1,800
Clerk-stenographer	1,500
Filing and carding clerk	1,500
Chief clerk	2,100
Clerk-stenographer (2)	1,500
Accountant	2,100
Clerk and assistant accountant	1,500

eceipts:

The state purchasing department has but one source of receipts, the roceeds from the sale of surplus or obsolete assets of the state. The amount f such receipts varies from year to year in no predictable fashion. According o information reported in the "1941 Legislative Budget", the amount of such eceipts for the fiscal year ended June 30, 1939, was $6,029.49 and for the fisal year ended June 30, 1940, was only $113.50. The proceeds from the sale of urplus products produced by the various state institutions are reported by the gencies as income of such agencies rather than as receipts to the state purchasng department.

penditures:

The cost of operating the state purchasing department for the fiscal ear ended June 30, 1940, as reported in the "1941 Legislative Budget" was:

Class of Expense	Amount
Personal services	$22,986.23
Other current expense	1,841.11
Capital outlay	280.90
Total	$25,108.24

This cost was borne by various funds, as the appropriation acts made provision that each of the funds should bear a part of the expense of operating the purchasing department. The funds and amounts involved were:

General fund	$ 5,608.24
Millage fund	5,000.00
Highway patrol fund	1,000.00
Highway fund	13,500.00
	$25,108.24

APPENDIX V. STATE EXAMINER

Introduction:

The state examiner is a constitutional officer appointed by the governor and confirmed by the senate. His term of office is four years. The annual compensation of the office is $5,400 and is fixed by law. The statutes also fix the annual compensation of the superintendent of banks, which position the state examiner occupies in an ex-officio capacity, at $5,400. The state examiner, however, does not draw both salaries and there appears to be little purpose served by the mention of the salary of the superintendent of banks in the statutes.

Functions and Activities:

The state examiner, while he is ex-officio superintendent of banks and as such is the state's chief banking officer and administrator of laws relating to banks and banking, and while he devotes the majority of his own time to duties relating to the position of superintendent of banks, does direct the efforts of his staff to the primary duty, required by constitution and by statutes, of examining into the fiscal affairs of the various state and local governmental units.

The constitution provides that it shall be his duty "to examine the accounts of state treasurer, supreme court clerks, district court clerks, and all county treasurers and treasurers of such other public institutions as may be prescribed by law, and shall perform such other duties as the legislative assembly may prescribe. He shall report at least once a year and oftener if required to such officers as may be designated by the legislative assembly." The statutes also confer upon him specific duties with respect to the fiscal functions of the state, among which are:

To visit the offices and examine at least once a year the books, records, and accounts of all state agencies charged with the collection or handling of state money; and of all the educational, charitable, penal, and reformatory institutions of the state; and to report the result of such examination to the governor and attorney general.

To prescribe and establish the general methods and details of accounting for the receipt and disbursement of funds for the several public educational, charitable, penal, and reformatory institutions belonging to the state.

To prescribe and establish the general accounting methods for local governmental units; to examine at least once a year the books and records of local governmental units; and to report the result of such examinations to the board of county commissioners and the county attorney, or proper municipal officials.

In the event the city or county attorney fails to institute proceedings or fails to report to the state examiner the fact that proceedings have been instituted upon the basis of facts concerning violations of law or non-performance of duty related in a report of the state examiner, the state examiner may cause the salary of such attorney to be withheld. In the event such attorney refuses to institute proceedings, the state examiner may employ an attorney to prosecute the case at the expense of the local governmental unit.

Organization and Staff:

Notwithstanding the scope and importance of his duties as a fiscal officer of the state government, the qualifications of the examiner as prescribed by law are designed to secure a competent bank examiner. These qualifications prescribed in the statutes are as follows:

"The state examiner and superintendent of banks shall have been a resident of the state of Montana for three years and shall have had at least five years' banking experience in an executive capacity or as an examiner of banks, and active in either of these capacities up to within two years of his appointment."

The internal organization of the office of state examiner, as of September, 1941, is shown in the tabulation below. The work of some of the staff is divided between the activities relating to the control of banks and the activities relating to state and local fiscal affairs. This is indicated by the estimates of the percent of time spent on state and local fiscal affairs shown in parentheses in the tabulation. The annual compensation shown is the total salary received by each member of the staff.

Title of Position	Annual Compensation
State examiner (40 percent of time)	$5,400
Chief examiner (75 percent of time)	3,600
First assistant state examiner	3,000
Deputy state examiner (3)	2,700
Deputy state examiner	2,400
Bank examiner (15 percent of time)	3,000
Stenographer-clerk	1,500
Stenographer-bookkeeper (20 percent of time)	1,800
Stenographer (15 percent of time)	1,320

In addition to the employes shown in the foregoing list, there is another full-time bank examiner and a liquidating attorney connected with the office as well as five liquidating agents not necessarily on a full-time basis. These persons devote their full time to administering the laws relative to banks and banking.

Examination of State Agencies:

As the principal postauditing officer of the state, the state examiner annually audits the financial affairs of all state agencies. It is interesting to note that due to a duplicate assignment by statute of the function of examining certain state institutions to both the state examiner and the state accountant, these officers have an arrangement whereby the state accountant is a deputy examiner serving without pay and the state examiner accepts his reports on these institutions as his own.

The audit conducted of the financial affairs of the various state agencies is little more than a cash audit of the receipts of the office and of the disposition of those receipts. No audit is made of the expenditures for operations, neither as to amount, propriety, or classification. This last situation is a direct outgrowth of the condition under which the postauditing official is an appointee of the administrative authority. There is, therefore, no way at present in which the state examiner may determine that the functions of the various state agencies are being discharged in an efficient and economical manner.

The state examiner in discharging his duties relative to the examination of state agencies examines annually, at the expense of the agencies themselves, the records and accounts of:

Fish and game commission
Montana highway patrol
Montana highway commission
Liquor control board
Board of examiners for nurses
Teachers' retirement fund
Department of public welfare
Milk control board
Tuberculosis association
State water conservation board
Unemployment compensation commission
Registrar of motor vehicles

In addition, the state examiner examines the records and accounts of ll other state offices and agencies, but the expense of these examinations aid under the general fund appropriation made to the state examiner.

xamination and Control of the Fiscal Affairs of Local Governmental Units:

The state examiner is charged by the statutes with the duty of examning the fiscal affairs of local government units and with the duty of exerising a small amount of control over such units by means of an examination of heir budgets. This examining power and budget control power varies according o the organization unit. For example, he must examine at least once a year he accounts and records of all incorporated cities and towns but he cannot exmine the accounts and records of first and second class school districts unss requested to do so by the trustees of such district.

In any case the state examiner has little power to compel adherance o his prescribed methods or to compel the filing of reports and must depend upon

the cooperation of the local officials or, in especially flagrant cases, upon a suit instituted by local taxpayers. In this respect the statutes relative to the powers and duties of the state examiner are deficient.

The state examiner, in discharging his duties relative to the examination of local governmental units, annually examines the records of:

56 counties
116 cities and towns
42 irrigation districts
19 county free high schools
73 fire department relief associations

In addition, a varying number of school districts are examined upon the request of such districts.

Receipts:

The state examiner bills certain fees for collection by the state treasurer. The fees collected, exclusive of those collected as superintendent of banks were as follows:

Source of Receipt	Amount Collected Fiscal Year Ended June 30, 1941
Available for expenditure:	
Special examinations	$ 296.52
Industrial accident board	982.91
Total available for expenditure	$ 1,279.43
For deposit in general fund:	
County examinations	$11,900.00
Irrigation district examinations	1,125.00
County free high school examinations	475.00
City and town examinations	6,675.00
Fire department relief associations	750.00
Total for general fund	$20,925.00
Total	$22,204.43

Expenditures:

It is impossible to state accurately the amount expended by the state examiner in the discharge of his duties as state examiner during any given period, since a part of his staff is engaged in bank examinations and related duties. The work of several employes and of the state examiner himself overlaps between the two functions and the cost of equipment and supplies is not segregated. A fair estimate of the cost of discharging the postaudit functions of the office paid from general fund appropriations during the fiscal year ended June 30, 1940, would be $34,000.

APPENDIX VI. STATE TREASURER

Introduction:

The state treasurer is one of the seven elected constitutional officers in the executive department. He is elected for a term of four years and under the constitution is the only state officer who may succeed himself in office. His compensation is fixed by statute at $4,200 a year. The qualifications for office are established by the constitution and include the following:

> Age of twenty-five years, or over.
> Citizenship in the United States.
> Residence in state for two years next preceding his election.

An additional qualification, not of attaining, but of holding office, is that the treasurer must reside at the seat of government during his term of office.

The state treasurer is also a member ex-officio of the state depository board, the state hail insurance board, and the teachers' retirement board. He receives no additional compensation for the activities in which he engages by reason of these ex-officio positions.

Functions and Activities:

The state treasurer is directed by the constitution to "perform such duties as are prescribed in this constitution and by the laws of the state." The constitution also makes him a member of the state depository board which board has "full power and authority to designate depositories with which all funds in the hands of the state treasurer shall be deposited."

The primary functions of the state treasurer, as established by the statutes, are the receipt, custody, and disbursement of the state's moneys. He is also custodian of the investments in bonds, warrants, and negotiable paper belonging to the state or its agencies, except those investments held by the industrial accident board and the teachers' retirement board.

As incidental or miscellaneous functions the state treasurer cares for the collection of the principal and interest on state investments and interest on deposits, and the payment of principal and interest on the state's bonded indebtedness. He is custodian of such securities as various state depositories may desire to put up as collateral for deposits of state money made with them. In this connection it is the responsibility of the treasurer not to allow the deposits with any of the various depositories to exceed the amount of collateral pledged by such depositories to guarantee the deposits.

Organization and Staff:

The staff of the state treasury, as of September, 1941, is shown in the tabulation below:

Title of Position	Annual Compensation
State treasurer	$4,200
Deputy state treasurer	3,000
Chief clerk and cashier	2,700
Bond clerk	2,100
Clerk and cashier	2,700
Stenographer and bookkeeping machine operator	1,800

Receipts:

The state treasurer is custodian of all the investments in bonds and warrants belonging to the state or any of its agencies, except those held by the industrial accident board and the teachers' retirement board. As custodian of these investments, he is responsible for the collection of interest income on them and for collection of the principal when due. The face value of the investments held was $18,496,133.41 as of September 30, 1941, and the annual interest income on the investments approximates $500,000 each year.

When possible current funds are deposited with the various depositories at interest. The state treasurer is responsible for handling these negotiations and the interest collected from this source is approximately $14,000 a year.

In addition to the above, the state treasurer is made, by statute, the collecting officer for fees charged by the state examiner for examinations of banks and various governmental units, both state and local.

Expenditures:

The cost of operating the state treasury for the fiscal year ended June 30, 1940, as shown by the "1941 Legislative Budget", was:

Class of Expense	Amount
Personal services	$16,200.00
Other current expenses	2,083.26
Repairs and replacements	2,199.60
	$20,482.86

The unusually large item for repairs and replacements was caused by the replacement of a bookkeeping machine and repairs to the burglar alarm equipment. This expense is not of a recurring nature and the normal expense of operating the office would be approximately $18,500.00.

APPENDIX VII. STATE DEPOSITORY BOARD

The state depositor board was created by the constitution with a membership comprising the governor, state auditor, and state treasurer, all of whom serve ex-officio without additional compensation for discharging the duties arising by reason of board membership.

The board is vested by the constitution "with full power and authority to designate depositories with which all funds in the hands of the state treasurer shall be deposited - the treasurer shall not be liable for loss on account of any such deposit...." The statutes assign the board powers and duties in addition to those vested in it by the constitution. These additional powers and duties relate principally to the following:

Requiring the payment of interest on deposits at a rate agreed upon by the depository bank and the board.
Approval of bonds or security posted by depository banks to guarantee deposits made with them.
Directing the withdrawal by the state treasurer of all moneys deposited with a bank for any reason.
Authorizing and directing the state treasurer to invest surplus cash in registered warrants of the state of Montana.

The state depository board does not have a staff as it has no operating functions to perform. It operates by means of resolutions adopted and entered upon its minutes.

STATE OF MONTANA

GOVERNOR'S COMMITTEE ON REORGANIZATION

AND ECONOMY

PERSONNEL ADMINISTRATION

(Report No. 54)

January 9, 1942

Prepared by

Griffenhagen & Associates

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REPORT ON

PERSONNEL ADMINISTRATION

Introduction:

Contents of the Report: This report deals with employment procedures and other matters of personnel administration as applied to the state service. In covering these subjects, it discusses specifically the policies and procedures with reference to authorization of positions and pay; selection and appointment of employes; promotion, transfer, lay-off, and other changes in status of employes; regulation of the service, hours, and leaves of employes; and miscellaneous other matters having to do with the relations of the state to its employes.

The emphasis in this report is placed upon proposed provisions with only brief reference to existing practices. The existing practices as to most of the subjects discussed vary widely from one agency of the state government to another. But no purpose would be served by a detailed comparison, analysis, or criticism of the present varying practices in the several individual agencies. If substantial improvement is to be made, the practices should be made uniform throughout the state service.

Since the proposals contemplate a uniform system, this report deals also with the question of an organization to administer the proposed system.

Purpose of Suggestions in the Report: The suggestions as to personnel procedures in this report are not offered with the idea that their adoption or rejection as a whole is essential. Most of the suggestions are severable, and there are plenty of alternatives to the specific provisions offered that might be very nearly, or quite, as good, even from the standpoint of an ideal personnel system. Furthermore, departures from the ideal may be necessary to meet special local conditions or desires, or for reasons of expediency. In preparing the report, choices had to be made among the alternatives available and the authors have endeavored, in the process, to select sound policies and procedures that seemed to them most appropriate to the conditions existing in Montana, according to their own appraisal.

It may even be, as a matter of fact, that Montana has not yet reached the point where it is ready to commit itself to a complete, modern personnel system based on merit principles, to be administered through a central authority. But this, if so, affords

no valid argument against the adoption of improvements over some, if not all, of the existing personnel policies and practices.

Possibly the way toward eventual attainment of a well-rounded and fully effective personnel system may have to be one of progress by easy stages, a step at a time. The adoption of classification and compensation plans, as more fully explained later, with provision for their application and administration in such ways as to give them the greatest practical value, is suggested as a non-controversial step sure to produce beneficial results, and thus the step that might well be given priority of consideration.

Formal legislative action would not be indispensable to the adoption of improvements in the present personnel policies and practices. Use of such important aids to good administration as classification and compensation plans might be provided for merely as part of the budget procedure, though it is probable that funds could not be made available during the current biennium for administration. Even if no formal legislation were secured, such plans would be subject to tacit approval and to review of their results and effect by the legislative assembly from time to time in the course of its action on appropriations. Some of the other provisions governing such matters as vacations, holidays, hours of service, salary increases, and payroll procedures, might be made effective by executive action, subject to any future modifications that the legislative assembly may desire to prescribe.

On the other hand, the formal adoption of the essentials of a personnel system by law provides for a definiteness of declaration of policy and an assured continuity of execution, that is in every way to be desired.

Method of Approach to the Problem of Personnel Administration:

The "civil service movement," as the movement for improved personnel administration in government service has come to be popularly known, had its inception over half a century ago in a reform wave having much the character of a crusade, which resulted in the adoption of the United States Civil Service Act and similar enactments in a few states. Several additional states joined the procession by scattering enactments during the succeeding years, and similar provisions were extended to many cities, counties, and other government units. The movement, among states particularly, has been greatly accelerated in recent years.

The primary objective of the movement was that of checking the evils resulting from the free play of partisan spoils politics. The so-called "merit system" of appointment on the basis of relative fitness as determined by competitive tests, the benefits realized from centralized administration of personnel processes, and improvements in procedure and technique that have been brought about, might be regarded as happy, but more or less incidental, by-products not involved in the main issues fought for by the original reform groups.

The problem of partisan spoils politics in the state government of Montana is not of major importance. On the whole, there is less evidence of its influence on the selection and retention of employes in the Montana state government than there is in many jurisdictions where so-called "civil service" systems are in effect for parts of the service, and have been for years. Under present conditions, the primary need is for improvement in the more prosaic routine processes of personnel administration.

Much progress in point of view has been made by groups favoring improved personnel administration in government services, but the emphasis given to the reform aspect of the earlier movement and some of the devices resorted to for protection from the evils of spoils politics, then advocated with semi-religious fervor, have done much to alienate support and afford arguments to the opposition, that later changes in point of view and method of approach have not been able completely to overcome.

It should be made very clear that the suggestions in this report are not designed to establish a traditional civil service system of the type referred to. They represent nothing more than an effort to apply to employment practices the same good business administration that is to be expected on far less important matters such as purchases and other classes of expenditures.

Because of the difference between this approach to the problems of public personnel administration and the old crusading style of "civil service" reform, it is probably desirable that the old forms and methods, even such old terms as "civil service" in its use to designate personnel administration according to merit principles, that have been surrounded by more or less misunderstanding, be abandoned; and that such improvements in personnel administration as modern developments have made available, be sponsored for what they are, matters of improved business policy and procedure rather than elements of reform. The differences referred to will be made clearer by reference to the list of essentials of a sound system in the following paragraphs.

Requirements of a Modern Personnel System:

Good personnel administration has in view the securing of the greatest possible value for the money expended for personal services, just as other aspects of good business management are directed toward securing the greatest returns from expenditures for other purposes.

The main avenues through which this result can be realized with respect to personal services are (1) that of effective planning and budgeting to provide positions of the kinds and numbers needed for the work to be done within the limits of available resources, (2) that of securing the most competent persons to fill the several positions that the money devoted to such services will provide, (3) that of maintaining conditions under which service is rendered that will induce the best qualified persons to enter the service and

encourage employes in the service to do their best, and (4) that of regulating separations to the end that weak members may be weeded out, but that losses of valuable employe material may be reduced to the minimum.

The various processes involved include:

(1) Establishing the positions. This involves careful planning and budgeting of the kinds and numbers of positions needed to perform the work to be done, and the actual creation of such positions and fixing of their compensation, in accordance with such needs.

(2) Filling the positions. The several means of entrance into positions consist of:

a. Regular appointment by way of original entrance, involving a period of trial on probation.

b. Temporary appointment for a limited period of service.

c. Transfer from a position of equal rank and responsibility.

d. Promotion from a position of lower rank or responsibility.

e. Reinstatement to a position previously occupied, after separation.

f. Reemployment in a position of like kind to one previously occupied.

g. Demotion from a position of higher rank or responsibility.

(3) Regulating the employment of persons in the service and the surrounding conditions by means of provisions for:

a. Wide open avenues of promotion on merit to higher positions, to encourage entrance to the service of the best qualified people bent on making the service a career; and the advancement to higher positions of those best fitted to advance, as a means of encouraging faithful effort and development on the part of employes.

b. Increases in pay as rewards for improvement in the continued performance of the same duties.

c. Fluidity of transfer as one of several means of adjusting cases of misfits and providing for seasonal and other fluctuations in the volume of work of different operating units.

d. Facilities for training by which employes may qualify for rendering improved services and for promotion. Facilities for training as means of qualifying applicants for specialized types of work, also are important.

e. Sound and consistent policies as to the periods of employment involving such matters as hours of work; holidays; leaves of absence for vacations, sickness, and other purposes; and control of attendance and absence.

f. Uniform policies and methods of procedure with regard to discipline.

g. Other measures designed to promote the welfare and morale of employes in the service, such as those involved in attention to working quarters, health, and recreation.

(4) Regulating separations of employes from the service involving provisions relating to:

a. Removals, that dead wood of unfit employes be cleared away; and in the other direction, that unfairness and discrimination be reduced to the minimum and the value of investment in recruiting and training of employes may be conserved.

b. Resignations, that forced resignations in lieu of removals be reduced to the minimum, and that attention be given to the causes of resignations with a view to reduction of the losses of qualified employes by reason of grounds of dissatisfaction that could be corrected.

c. Retirements, that adequate provision be made for employes who have passed their periods of usefulness, both on humanitarian grounds and for the benefit of the service.

d. Demotions, that unfairness be prevented and that the value of service of employes shown to be unfitted for the work they are doing be conserved for use in less responsible or less difficult work for which they may be fitted.

e. Layoffs, that necessary reductions of force be effected with the least possible loss of good employe material, and with the utmost fairness to the employes affected.

As is obvious, some of the processes listed relate in some degree to two or more of the main divisions under which they appear. For example, a promotion, or a transfer, represents both a separation from one position and a filling of another position; whereas the general policy and practice in such a matter represents a condition of employment which may tend to attract desirable employes and induce them to put forth their best efforts, in the service, or the reverse. Each process is included in the group to which it seems primarily to pertain, though some are listed twice in different connections. Under later heads in this report each is further discussed.

Some of the instrumentalities or "tools" that are essential to the best results in carrying out the several personnel processes are:

1. A sound classification of the positions in the service on the basis of their duties and responsibilities.

2. A well-integrated compensation plan providing like pay for like work and suitable differences in pay for differences in work.

3. An effective service rating system by which the performance of individuals may be compared with that of others and with established standards.

4. A sound and workable retirement system.

5. Practical and effective standards, procedures, techniques, forms, and records for carrying into effect the several processes and applying the several instrumentalities.

A complete personnel system, along modern lines, includes (1) proper provisions of law or rule prescribing effective policies and methods as to these several personnel processes and instrumentalities, (2) an agency charged with responsibility, and suitably staffed and equipped, for administering such provisions, and (3) definitely established standards, routines, and techniques for such administration.

Incidental to the operation of a personnel system are the checks and controls provided by the proposed procedures of the general system of financial administration, involving budgeting, control of expenditures, and other elements that apply to personal service items in much the same way they do to those not involving personal services.

The several processes and instrumentalities mentioned are discussed separately later in this report.

Organization for Personnel Administration:

Existing Organization for Personnel Administration: The only formal personnel agency in the state government is the merit system council which serves the state department of public welfare, the unemployment compensation commission, and the state board of health. There are a few isolated provisions of law relating to personnel administration, but these receive little or no administrative attention.

In effect, the various statutory provisions leave most of the responsibility for personnel administration in the hands of examiners. The governor and the other members of the board have far too many duties to be able to give this important subject more than a minor fraction of the attention it needs.

The joint merit system council referred to above was established in 1940. It has no state statutory basis but was formed in accordance with provisions of federal law and with the rules and regulations of the federal social security board and the children's bureau of the United States department of labor. It is recognized in the individual personnel rules of the three state agencies it serves, and is financed jointly by them.

The council comprises three members appointed by the governor for overlapping terms of six years, although there is some confusion as to the length of the terms. The personnel rules of one of the three agencies require the appointments to be made for overlapping terms of three years. There are two regular employes on the staff of the council, a merit system supervisor at $3,000 a year and a secretary at $1,620 a year. Stenographers, clerks, interviewers, receptionists, consultants, and monitors are employed on a temporary basis when needed. The merit system supervisor was selected from a list of applicants examined by the council and certified to the heads of the three agencies served. The selection was made through agreement of the heads of these three agencies and appointment by the governor.

Need for a Central Personnel Agency: It is a matter of good business to have the personnel affairs of any large employer attended to by a specialized central agency in ways calculated to insure that the highest practicable value is returned for the expenditures for personal service. Highest values are secured where uniform policies are effectively applied in such ways as to insure rates of compensation and working conditions that encourage the entrance to the service of the persons best fitted for the work and their retention in the service and encouragement to devote their best efforts to their work. By such means, and by such means only, can a large employer insure getting anywhere near full value for his money expended for personal services.

It is, in fact, vastly more important that good business principles and procedures be applied to personnel transactions than that such principles and practices be given effect elsewhere. Two-thirds or more of the expenditures of any large government organization are for personal services. The opportunities for waste, and

even fraud, are greater rather than less, and the available safeguards are harder to apply.

Furthermore, practically all other expenditures are dependent for their effectiveness on the quality of the personal services rendered. Most institutions and offices are maintained primarily as working places for the rendering of personal services, and supplies and materials are purchased principally for use in the rendering of such services. All these derive their whole value from the effectiveness with which they are used.

It should require no proof that uniform policies and procedures of general application to all branches are desirable in any large enterprise, in matters of general administration. This is particularly true in relation to matters of personnel. If employes in one unit are paid at higher rates than like employes in another, work shorter hours, or are allowed more extended absences and vacations, for example, the employes of the second unit would be justified in a feeling of unfair discrimination against them. Such conditions have an undermining effect on the morale of the workers. Furthermore, a central personnel agency can serve all the operating agencies at little more expense than that required for a personnel agency, of equal standard, for one of the larger departments.

Various Types of Personnel Agencies: The most usual type of central personnel authority is that commonly called a civil service commission, composed of lay members, invested with independent authority to stand as umpires upon the side lines, as it were, and to tell the administrative authorities what they can do and what they cannot do, with regard to appointments, removals, and other matters relating to their employes, following the pattern favored by the original reform groups. Results ranging from poor to fairly good have resulted from this type of regulatory control. More commonly than not, the lay members have felt it incumbent upon themselves to occupy themselves actively with the detailed routine of personnel administration. Untrained as they usually are, they have often made a sorry mess of it, though in a few instances they have been wise enough to provide an executive with a suitable background of training and experience to conduct the routine of administration. Such executives have, however, but rarely been vested with sufficient powers to keep the board members from interfering with detrimental effect.

In many cases, civil service administration under the commission form of organization has tended to settle down into a sort of blind following of rather arbitrary and bureaucratic rules, without vision as to the broader purposes to be accomplished, or grasp of the practical needs of the operating departments. As a result, the commissions have come to be looked upon by most executives as handicaps. They have been thought of as being without interest in, or concern for, the success of the administration of the affairs of the operating departments and, by their independent status, responsible to no one. Their principal business has been conceived of as that of throwing obstacles, by means of arbitrary rules and decisions unrelated to needs, in the way of business executives who are trying to get things done.

To some extent, in some jurisdictions, these impressions have been justified. But, at the worst, the commissions have accomplished much good in checking the deleterious effects of spoils politics upon the public service, and in establishing some measure of insurance that appointees will have adequate qualifications and that there will be a consistent policy and an orderly procedure in employment matters in general.

Of recent years, a new conception of public personnel administration has been developing. By its light, personnel administration is looked upon merely as one of the aspects of business administration like budgeting or financial control or central purchasing. Good central personnel administration is regarded, in this view, as a means of rendering a type of specialized service to operating officials that they are not ordinarily equipped to render for themselves and could not equip themselves to render, to equal advantage at least, without undue duplication of specialized staffs. It is looked upon also as a means of carrying out uniform general policies that could not be given effect with the personnel function divided up among the several operating units. From such a point of view the personnel function is one to be regarded in a public service much as it is in a large private undertaking, where personnel activities are often found entrusted to a ranking official such as executive vice-president, or combined with related financial activities in a service or "housekeeping" department rendering services to the operating departments and exercising controls to see that general policies prescribed from above are carried out. This is essentially the modern viewpoint of the personnel function in public as well as in private business.

With the development of this business point of view in personnel matters, there has arisen what amounts practically to a new profession of specialized personnel administrators, trained and experienced in developing and applying the best techniques to personnel problems.

Place of a Central Personnel Agency in the State's Organization: Assuming a need for a central personnel agency and assuming that the personnel agency should not be a commission type of agency but, rather, that personnel activities should be made the responsibility of a personnel officer, the question arises as to where in the state's organization the personnel officer and his staff should be placed. Two possibilities are apparent: (1) the personnel agency might be established as an independent department of the state government with its head appointed by and responsible directly to the governor, or (2) the personnel agency might be established as a part of another "housekeeping" department of the state government with the head of the personnel agency responsible directly to the department head and through this latter officer to the governor. In another report of this series of reports, a proposal is made for the establishment of a department of finance to have charge of budgeting, pre-auditing, accounting, purchasing, and other matters of financial administration. Personnel administration is so closely related to the various processes of financial administration that it can be made a part of the work of a department of finance to much advantage.

While there are plenty of reason why it might be desirable to establish a separate agency, it would seem under existing conditions in Montana, that a central personnel agency should be established as a unit in the proposed department of finance.

Whether or not it will be necessary for the state to continue to maintain the joint merit system council separately as a means of obtaining federal grants will depend upon the extent to which the merit principle prevails in the operation of the central personnel agency. As pointed out elsewhere in this report, the central personnel agency may accomplish varying degrees of results in good business administration depending upon the policies followed in adopting the more desirable administrative devices in accordance with the merit principle. These several policies and devices are discussed in the pages that follow.

Instrumentalities of Personnel Administration:

The Place of Various Tools of Personnel Administration: Several tools, or instrumentalities, of personnel administration are listed earlier in this report. Briefly, they are: classification of positions; compensation plan; service rating system; retirement system; and various standards, procedures, techniques, forms, and records.

While these are all integral parts of any complete, well-rounded personnel system, some of them can be used with a fair degree of effectiveness without the adoption of any of the more controversial parts of such a system. For example, it is not necessary to have any formal system of competitive entrance examinations or any restrictions on removals of employes in order to secure a large part of the benefit to be derived from the classification of positions and the use of an equitable compensation plan. To a lesser extent, even a service rating system is worthwhile without any of the traditional "civil service" restrictions. These three subjects are discussed in detail in subsequent pages. Retirement is discussed in connection with the various methods of separation of employes from the service.

The need for the classification of positions in the state service and for the application to such classification of a compensation plan is second only to the need for some agency to administer personnel matters.

Classification of Positions: Reduced to simple terms, classification of positions means:

1. Finding out what different kinds or "classes" of positions or occupations there are in the service which call for different treatment in personnel administration.

2. Defining and making a record of the "classes" found and allocating to each class the particular positions that are found to be of that "class" on the basis of the duties involved.

In general, it may be said that the primary object of a classification of positions is to furnish a means of administration that will make it possible to deal uniformly with like positions, and consistently with those unlike, according to definitely established policies and procedures in personnel matters. To insure equity and fairness among employes, among the several agencies of the state government, between each employe and the state as an employer, and between the employer on the one hand and the taxpaying public on the other, there must be a satisfactory basis for the application of such self-evident principles as that there should be "like pay for like work under like conditions," and that appointments, increases in pay, and promotions, should be made in accordance with sound and uniform policies and procedures.

Specifically, a good classification of positions as defined above, has numerous practical uses to which it can be put with advantage to all the agencies concerned in administration. It provides a clear-cut system of terminology under which a given title can be used always to mean just one kind of position. It makes the exact meanings clear by written definitions. Its standardized nomenclature can do just as much toward facilitating employment transactions as similar standardization has accomplished in facilitating commercial and engineering transactions where accepted terms for grades, measurements, styles, and units have been established.

With the exception of classification plans adopted by the three agencies served by the joint merit system council, the state of Montana has no well-defined classification of the positions in its service. Many positions with the same duties are called by different titles and have widely varying salary ranges. Other positions have the same title, but the duties involved are dissimilar. Even the plans of the three agencies which have classified their positions would bear considerable improvement.

The utter impossibility of dealing with each single position and comparing it individually with every other one of hundreds in the service whenever any question comes up for consideration, is obvious. The results of doing this or, what happens more often, of failing to make any comparisons at all, can only result in inconsistency, unfairness, discrimination, and time-consuming struggles with special cases.

The state should cause the duties and responsibilities of the positions in its service, and the consequent qualification requirements, to be determined. When two positions involve duties and responsibilities that call for substantially the same qualifications in employes competent to fill them, they should be treated as being in the same class; otherwise, they should be treated as being in different classes. The class of a position is thus determined objectively, without any reference to the qualifications that the incumbent may possess or lack at the time the classifying is done. These personal factors are intended to be taken into account in determining the rate of pay of the incumbent within the range of the scale of pay established for the class, as explained later. When

every position has been allocated to its appropriate class, each such class will consist of all positions which are sufficiently alike to be called by the same descriptive title, accorded the same scale of pay under like conditions, and filled by persons of the same qualifications.

The "classification plan" should consist of all the classes in the whole service taken together, each class being represented by a distinct kind of employment which differs from every other class in the duties and responsibilities involved. The plan as a whole should be designed to provide an appropriate place to which each position in the service can be allocated. The titles of the positions used to designate the various classes should, so far as it is found practicable, indicate the relationships among the various classes with respect to one another.

Each class in the plan should be described by means of a written "definition" (often called "specification,") intended to give clarity and precision to the title of the class by indicating the scope of the class and how it is distinguished from other classes. This should be done by the definition in terms of:

1. The essential distinctive nature of the duties characteristic of positions of the class, usually illustrated by examples.

2. The minimum qualifications considered to be essential to fit an applicant for entrance to a position of the class.

The definitions should be descriptive rather than regulatory in character. They should define and not prescribe.

It should be remembered that no classification plan, however sound in the beginning, can be expected to remain so for very long without adequate provision for its current revision to keep pace with changes in the positions making up the service. No such plan can be expected to serve as an adequate tool of administration unless provision is made for its use as such a tool by means of adequate organization and procedures for its application and continuous administration to accomplish the purposes it is intended to serve.

Compensation Plan: A compensation plan is the scale of rates of compensation prescribed for all classes of positions in the service. If the compensation plan is to be an integrated and standard plan, it must be based upon an adequate classification plan and one that is designed to give effect to the principle of like pay for like employment under like conditions, with suitable differentials in pay for differences in the difficulty and responsibility of the service rendered. If the compensation plan is not based on an integrated and standard classification plan, there cannot be a complete application of the principles of equity, fairness, and uniformity.

In Montana, the rates of pay for positions in the state service are determined by a variety of methods and by a large number of independent administrative authorities acting in behalf of their own agencies, although the governor is required by law to pass on most of the rates before they go into effect. Many salaries, even those of minor clerical positions, are fixed by law. With the exception of the compensation plans found in the three agencies served by the joint merit system council, there is no sound or systematic device for determining rates of pay on an equitable basis. Even in the cases of the agencies served by joint merit system council, the compensation plans are not uniform.

The absence of adequate classification and compensation plans not only result in inequities among employes but also make the problem of budgeting extremely difficult. State officers, in making budget requests, have no means of specifying, by the use of proper titles and without further elaboration, just the positions which they think are needed. The budget-making authorities and the members of the legislative assembly who are called upon to make appropriations have no standards to enable them to understand exactly what kinds of positions are being requested and whether or not the amounts requested for salaries are fair and reasonable in relation to the duties and responsibilities to be assigned.

The general requirements that a compensation plan should meet are:

1. That it be in a form to permit its practical application.

2. That it be equitable in its provisions with respect to the interests both of the employes and of the taxpayers.

The first of these requirements is met if the plan makes it possible to determine readily the proper compensation for any type of service, for any position, and for any individual employe.

The second requirement is met if the plan provides rates of pay that are right and just, that take into account the importance and the difficulty of the service that is involved in the respective positions, that recognize the relationships between the value of such service and those of other positions in the same general line of work regardless of agency lines, that uniformly apply a consistent policy of relationship to the general salary and wage levels for similar work in private employment, and that make it possible, in some practical way, to recognize the difference between the value of the service of an employe at the time of his appointment and after he has become familiar with, and experienced in, the specific work of his position.

Each scale of pay should include a minimum rate, intended to be the entrance rate for the class and to be considered the lowest rate that any employe ought to be paid for performing the work of the class. Each scale of pay should also include a maximum rate, meant to be the highest rate that anyone engaged on the work of the

class ought to be paid. The relative levels are meant to express the value placed upon the work of the class with relation to the values placed upon the work of other classes. Each scale should also include one or more intermediate rates.

The rates of compensation above the minimum in each scale should be reserved for application as rewards for meritorious performance of the duties of a position of the class. For this reason, any provision by rule or custom through which advances from rate to rate come to be regarded as more or less automatic, to be treated by the employes as matters of right, negates the whole idea and purpose of ranges of pay provided by the scales. No increase should be made in any case except on a positive showing that it has been earned by the actual performance of services of a superior quality. A well planned system of service ratings, as outlined later in this report, is the most desirable basis for such increases and is valuable in numerous other ways. Even in the absence of such ratings, no increase in pay should be allowed, except on the recommendation of the responsible administrator, subject to check and review, embodying his positive certificate that the increase is merited and the reasons therefor.

Furthermore, it is desirable that the compensation plan should cover all offices and places of employment, in order that they may be duly related to each other. For this purpose, if no other, all positions, statutory or otherwise, should be included in the classification plan, though single rates, rather than scales will have to apply to some ranking offices. In this connection, it would be desirable that all statutory salaries be abolished, with the exception perhaps of those of a few major officers, in order that suitable relationships may be established and maintained as conditions change. The legislative assembly rarely has all the facts before it in establishing salaries by statute. Furthermore, when economic conditions change, it is hard to change the salaries established by statute to adapt them to the new conditions. In abolishing statutory salaries, the legislative assembly would not lose its rightful control over salaries paid to employes. Its approval of the compensation plan would still be necessary to give the plan effect. It would also have a chance to review the working of both the classification and compensation plans periodically in connection with each budget presented for its action. It would also have the opportunity of reviewing these plans in connection with current and special audits and investigations to see that they have been applied in accordance with the legislative intent. In addition, it would be in a position to incorporate in the appropriation acts or in separate legislation any specific requirements to correct conditions not to its liking or to prescribe any policies desired.

Service Rating System:

The importance and uses of an effective service rating system are brought out with considerable definiteness at different points in this report to which they apply. As so brought out, the standards of quality of service and the procedures that can be provided by a service rating plan so designed and administered as to

give positive indication of the relative merits of individual employes, would afford an objective basis for determination of such matters as eligibility for salary increases, value of experience in rating that factor in promotion tests, relative order of layoff and reemployment, eligibility for reinstatement and reemployment, occasion for corrective action by means of salary reductions, demotions, retirements and removals, desirability of transfers of individuals, and extent of losses of good employe material by resignation.

The results of experience in the development of service rating systems have not been all that could have been desired. This is disappointing because the principle involved is so sound that there is little room for valid objection to it.

It should require no argument, for example, to establish the fact that the results of even the simplest possible form of systematic, periodic ratings are more dependable as bases of action in employment transactions, than the one-time judgment of even the best-intentioned administrator. Such a judgment "under the guns" as it were, when a promotion, salary increase, or other employment change is to be made, is affected by the chance impressions of the moment, and may involve unconscious bias resulting from chance impressions based on trivial incidents, and complete ignoring or belittling of individuals or factors that do not happen to be foremost in mind at the moment. Thus a system so simple as to involve nothing more than the periodic recording of judgments as to the relative merits of all the employes, without analysis of the judgments into separate factors, and the averaging of the recorded ratings for a considerable period, is likely to provide a more reliable basis for comparison of records of individuals when a salary increase or promotion, or other personnel change is to be made, than the best-intentioned judgment formed at that one time. But much more effective systems of providing dependable records of the value of service of employes have been developed. Numerous such systems have been tried in different services at different times, usually with considerable glamour of success for a while, followed by disappointing reactions. The systems almost invariably tend to fall into a perfunctory rut and gradually to lose whatever of confidence they earned at the start, and thus to be allowed to fade into disuse.

But the fact that any number of such systems involving different variations have operated successfully for considerable periods seems to demonstrate conclusively that rating systems can be made practical and dependable. The correct inference seems to be, not that service rating systems do not work, but rather that they fail when those responsible cease to work them and leave them to operate themselves.

One of the primary requirements of any service rating system that is to give any results of value is central administration to see that the system is followed by the different rating officers, that uniform standards are consistently applied, and that any necessary revisions in the system of ratings are made. This is the point at which the systems usually fall down. The central administration becomes loose, rating officers lose interest, the ratings become perfunctory and unreliable.

It is hoped that the desirability and importance of providing an effective service rating system for Montana can be clearly shown in this report.

No formal system of individual service ratings has been found in the service of the state in connection with the study on which this report is based, except in the unemployment compensation commission. The system which has been in use there, however, has not yielded satisfactory results and has virtually been discarded. The joint merit system council hopes to install systems of service ratings in the three agencies which it serves at some future date. Throughout the state service, the common practice of passing upon the merits of employes in cases of salary increase, promotion, transfer, layoff, removal, and the like, is to rely on the memory and current impressions of the superior officer.

There are many available systems of rating that could be applied directly, or adapted for the purposes of a general system of ratings for the service of Montana, and that could be made to give successful results if properly administered. The authors of this report are no more interested in one than another, except from the standpoint of seeing the best possible results secured. One that has been developed, tested, and refined to perhaps a much greater extent than any other, and has received a much greater degree of acclaim for getting reliable results in actual practice, is covered by a copyright and is available only on a commercial basis.

Standards, Procedures, Forms, and Techniques: A considerable body of what might be regarded as more or less standard practice has resulted from the experience, the research, and the experimentation, of personnel agencies that have been in operation, and individuals and organizations that have specialized in consulting and research work in the personnel field. This material consisting of practical and effective standards, procedures, techniques, forms, and records, is available to be drawn upon for use in constructing a system for concrete application in a particular jurisdiction according to the particular policies and requirements that are decided upon. It would be fruitless to attempt to catalog the particular items and adaptations that have been made to serve specified purposes and to accomplish particularized results in detailed ways appropriate to the systems as applied in different jurisdictions. It is enough to point out that to a personnel specialist sufficiently familiar with personnel principles and requirements to be capable of developing an effective system, a wealth of such material is available for adaptation and can be drawn upon.

Authorization and Control over Establishment of Positions:

Original Authorization:: The determination of what positions should exist in any service is primarily a matter of general administration, not directly involved in personnel administration as such. But it does involve some factors of personnel administration and calls for sincere cooperation of the budget, personnel, and administrative authorities if effective results are to be secured in providing the service with just the kinds and numbers of employes, at the right rates of pay, that are needed to perform tasks that are necessary and proper.

The budget officer, as a part of his regular budget work, should pass upon requests for positions, and should make such changes as he may deem warranted in numbers and kinds of positions requested, by way of suggestions to the Governor in making budget recommendations to the general assembly. The sum total of the amounts requested for the several positions in any agency, as so revised, should be included in the draft of a proposed appropriation act to be recommended by the Governor.

Statutory provision for payment for individual positions, or for continuing appropriations or payment from dedicated revenues, is objectionable. Statutes providing for these things, and those authorizing various administrative officers to fix rates of pay, should be repealed.

Adoption of the basic principles set forth in the report of this series on financial administration would give Montana the foundation for such a budget procedure.

Control Over Expenditures for Personal Services: The carrying out of budget plans, as authorized by appropriations, and control over personal service expenditures for compliance with the provisions of the personnel system as well as those of the financial system in general, could best be assured by incorporating the necessary checking in conjunction with the preaudit procedure suggested in the report of this series on financial administration.

After necessary legislation has been enacted, the appropriations, and likewise any special statutory provisions purporting to fix titles or rates of pay, should not be regarded as mandates to spend the amounts represented by the appropriations, or by any items of the detailed estimates on which the appropriations are based, or to observe the titles and rates specified regardless of the true nature of the actual positions. Instead they should be regarded merely as authorizations to establish positions appropriate to such titles and rates, and to expend not to exceed such amounts as are represented by the appropriations and supporting estimates, for positions of kinds actually existing, or necessary to accomplish the purposes for which the appropriations are provided.

Included among the restrictions and procedures in connections with such a plan should be requirements for positive official action to establish each position and to determine its class; for selection and induction of each employe into the position in an appropriate, authorized way; for the fixing of the rate of pay of each employe; and for positive reports of service actually performed and leaves of absence officially granted. All such procedures should be duly audited before any employe can be paid for any period of service. Records of all such facts, duly certified by the administrative authorities concerned, should be kept centrally as the basis for audit of the payrolls.

Individual positions should be created by action of the heads of the budget units, who should report the intended duties of each and request the allocation of each position to its appropriate class in accordance therewith. The personnel officer should thereupon make such investigation as might be called for, and allocate the position to its appropriate class, which would fix automatically the scale of pay applicable under the compensation plan. The specific rate of the scale that would apply in the case of the individual employe should be fixed according to rule providing, preferably, for original appointments at the minimums, for transfers and reinstatements at rates no higher than the employes last received, etc.

Under such a procedure, there would be no need for the personnel officer to make an independent check of all payrolls to insure that all employes had been employed and retained, in accordance with the requirements of the personnel system. These facts could be checked by the audit office at the same time, and in the same operation, that other facts bearing on the authority for payment were checked.

In some quarters, provision for check and certification of payrolls by the personnel agency is considered one of the most desirable and most effective features of a modern personnel system. Most civil service acts now in effect provide for this feature. This is to a large extent a hangover from the earlier concept of the central personnel agency as an independent "watchdog" over administrative officials (including auditing officers) who could not be trusted. It is really out of place in a personnel system that is conceived as part of a general system of financial control and good business administration.

Various Methods of Filling Positions:

As indicated under a preceding heading, positions subject to competitive merit requirements may properly be filled by regular appointment by way of original entrance to the service, by temporary appointment, by transfer, by promotion, by reinstatement, by reemployment, or by demotion.

Demotion from positions of higher classes and transfer from positions of the same class should be given primary consideration as methods of filling positions, where they are desirable in the interests of the service for the purpose of affecting adjustments in the cases of employes already in the service, under conditions later described.

Reinstatement and reemployment as methods of utilizing the services of former employes of the same class, who left the service with good records, come next in order.

Next come methods of appointment not based on previous employment in positions of the same class. These consist of promotion from a lower position, and temporary appointment for a short period of service, and regular appointment by way of original entrance to the service.

The considerations involved, with reference to each of these several methods of filling positions, are discussed under later headings, with first attention to regular appointments.

Positions not subject to requirements of competition, of course, do not involve the distinctions here outlined, but stand by themselves as to the methods of filling them, as later discussed.

Regular Appointment by Way of Original Entrance:

Description of Method: The normal way of filling positions may be considered that of regular appointment. By this is meant the designation of an employe and his induction into the service in a permanent position, with what is intended to be permanent or continuing status. This is substantially the only method now in use in the state service, but if a comprehensive personnel system is adopted, based on merit principles, regular appointment should be employed only when there are not any persons previously employed whom it is desired to place by reinstatement or reemployment in positions of the class, or any present employes whom it is desired to place in positions of the class by demotion, transfer, or promotion. The claims of all these should then take precedence in the order named over those of candidates for original appointment.

With the exception found in the three agencies served by the joint merit system council whereby appointments are based on examinations, the establishment of eligible lists, and certifications of three names from the top of such eligible lists, there is no general system of consistent policies and procedures in appointments to the service of the state. The governor does have to approve all appointments in agencies, the heads of which are appointed by the governor, but this can hardly be classified as standard policy of effective personnel administration. Some agencies attempt to determine the qualifications of candidates for appointment, and, for this purpose, have assigned personnel duties to one of their employes on a part time basis. With the exceptions noted above, there are no definitely formulated standards for entrance and no formal tests or systematized procedures along modern lines.

The selection of new employes on the basis of competitive tests is now generally accepted as a much more satisfactory system than the present rather haphazard method. The basic principles behind such a method are unquestionably sound. While such tests are not always well designed and are not infallible even when well designed, nevertheless, if they are judiciously applied and use aptitude and skill tests where written tests do not fit, they are certain to produce better results than can be secured through individual personal judgment, especially under the conditions ordinarily found in a state government.

There are many reasons for the adoption of such a system. The one most frequently stressed is the opportunities it offers for improving the caliber of appointees. The one most frequently overlooked is the extent to which such a system would relieve the governor and other responsible officials of the pressure, embarrassment, distraction, and futile waste of time needed for more important things resulting from the necessity for interviewing and rejecting innumerable applicants for jobs.

Substantial benefits would result from such a thoroughgoing system for appointments as is outlined in this report. But, of course, substantial benefits would also result, in less degree, from a less formal or less extensive application of merit principles and procedures. For example, even if examinations were not required as prerequisites to appointments, the personnel officer could encourage and cooperate with appointing officers who desire to make use of modern testing devices and procedures. He could provide and maintain central supplies of qualified eligibles to which appointing officers could resort voluntarily. Even simplified forms of tests and procedures applied to candidates as "qualifying" tests to make sure, so far as readily practicable, that they meet acceptable minimum standards would provide for some improvement over the existing situation.

Under any full-fledged plan of appointment on a competitive basis, the standard method of original appointment should be that of selection by the appointing officer from a certification of "eligibles" made by the personnel officer, eligibles being persons who have demonstrated by means of competitive tests of fitness conducted under the direction of the personnel offficer, that they are the most fit for trial in the performance of the duties of positions of the class. The different elements involved in the process of making eligibles available and the steps leading up to a regular appointment are outlined under the subheads that follow.

Recruiting: It is, of course, desirable that as many persons as possible who are likely to be found qualified for positions of any class, be located and be induced to submit themselves for consideration as to their qualifications for appointment. For this reason the personnel officer under a comprehensive personnel system, centrally administered, should use every practicable means of locating sources of supply and of bringing to the attention of people likely to be qualified, notice of the fact that opportunity exists for them to be considered for appointment.

The principal means of accomplishing this is that of formal notices of tests. These notices should contain sufficient information to enable prospective applicants to decide whether they wish to apply and to encourage qualified persons to desire to do so. Such notices should be posted in a prominent place in or near the personnel office. Usually the newspapers are glad to publish information about tests that have been announced, as items of news of interest to their readers. In addition to posting and newspaper publicity, various other means of bringing the fact that tests are to be held to the attention of those who might be able to qualify for appointment should be resorted to.

In the cases of some classes embracing considerable numbers of positions, numerous vacancies occur at frequent intervals making it desirable that adequate supplies of qualified eligibles available for immediate certification be maintained at all times. In the cases of other classes constituting the large majority, many of them "one-position" classes, years may go by without a vacancy. It is desirable that tests for classes of the first type be regularly scheduled and be held periodically with such frequency as may be necessary to maintain a continuous supply of eligibles for each such class. In fact, in the cases of some classes for which it is difficult to maintain continuous supplies, strenuous efforts must be made calling for active efforts in recruiting and, in some cases, frequently announced special tests in between those regularly scheduled.

Probably in no other way can a central personnel agency justify itself in practice to a greater extent than in serving as a sort of clearing house for all personnel material available for the filling of positions throughout the entire service. By this means all such material can be gathered at one point, sifted once for all, and the best of the material can be brought to the top and be made available for appointment to positions as vacancies occur.

With the exception of the joint merit system council, there is no central point at which persons desiring appointment in the service of the state may apply with a view to their being used wherever they will fit best. Each individual has to apply separately to each agency. It is clear that there must be tremendous wastes of time and effort on the part of applicants and on the part of state officials in separately interviewing and investigating the merits of candidates, often duplicating each other's efforts. And with all this waste, no single appointing officer can expect, at the best, to have available anywhere near the supply of qualified eligibles, from which to select the best, that could be provided by a single central personnel agency to whom all applicants could be referred. Such an agency would be in a better position to seek out qualified persons and could apply more effective techniques to the applicants in larger groups for determining their relative merits, and would thus be in a much better position to maintain a constant supply of the best qualified of all persons available, whose names it could furnish to any of the appointing officers under whom vacancies might occur. The businesslike character of such a procedure as compared with separate recruiting by any number of separate appointing officers should be obvious.

It would be desirable for such central recruiting facilities to be set up, even though no complete and formal personnel system is adopted, even though no formal testing of candidates is applied, and even though utilization of the central recruiting facilities is left to the voluntary action of the several appointing officers.

Standards and Tests of Qualifications: The process of sifting those available for employment so as to bring to the top those best fitted to perform the duties of the several types of positions, is an important one and one that is commonly neglected in a service for which definite and formal provision for personnel administration along modern lines has not been made.

A central personnel agency would be in a position to provide itself with a staff (one or more) of trained and experienced personnel specialists familiar with, and able to apply, those techniques and devices which research and experience has shown to be most effective for testing personal qualifications.

It is a common and popular fallacy, which opponents of the merit system accept and twist to their own purposes, to consider that civil service tests, in their very nature, consist solely of written examinations on what has been learned in the schoolroom, embracing questions and answers regarding matters that have no relation to the employment.

It need hardly be said that such a point of view has absolutely no relation to the facts as involved in the best approved modern testing techniques. The science or art of testing personal qualifications has made marked strides in recent years, as a result of research and the practical lessons of experience.

In the modern sense, tests of qualifications may include written or oral answers to questions, practical trials in the performance of assigned tasks, consideration of education or past experience and accomplishments or of personality traits, or any combination of these or other elements that are deemed to have any value as bases for predictions as to the success that a given candidate would have in the actual performance of duties of a given kind.

As has been indicated at various points in this report, the state has no general system of standards or methods, other than those employed by the joint merit system council, to ascertain the qualifications of prospective employes.

A central system of recruiting, with careful and methodical testing of candidates, would be of immense benefit. As indicated, less formal and less nearly complete application of the principles and procedures herein outlined, could be made to result in substantial benefits, even though a complete personnel system, or even a policy of appointment on merit, is not formally adopted.

Procedure in Appointment of Tested Eligibles: Where a formal testing procedure is in effect, the names of successful candidates in the tests ordinarily are entered on eligible lists, or

"registers," in the order of their weighted average ratings. When a vacancy is to be filled, a certificate containing the highest one, two, or three names (three is the most common number) is issued to the appointing officer by the personnel agency, from which the appointing officer makes his selection. More than one name is, in some jurisdictions, considered necessary in order not to infringe on the right of the appointing officer to make a selection. Court decisions have upheld a certification of three as involving no undue interference with this right. Certification of two names probably would be upheld on the same grounds. Some authorities say that the right is sufficiently assured by the trial and rejection provided by a probationary period. Certification of three names is the procedure used by the joint merit system council. However, due consideration should be given to limiting appointment to the highest eligible on the list, for each vacancy, and to depend on the probationary period, next discussed, to give the appointing officer his due part in the selective process.

To the extent that the tests as a whole, with the weights assigned to the several subjects, or parts, have real value in bringing out the probabilities of success of the testees in the work of a position of the class for which they are tested, the order of names on an eligible list represents the relative fitness of the eligibles for the positions to be filled. Of course, the testing techniques have not been perfected at all to the point at which it can be said that they are unfailing in their pronouncements of the relative order of excellence of the candidates. The most that can be said is that the ratings bring out the relative probabilities of success of the candidates. As a further means of trying out the qualifications, a provision that all appointments for original entrance or promotion shall be "on probation" for a working test period, as a tryout in the actual work of a position of the class, is found in most public personnel systems. During this period the appointee is supposed to be under critical observation by the appointing officer who, by this device, is given a part in the actual testing and selecting procedure.

The probation device has not been so successful in practice as it is capable of being, because it has been applied too perfunctorily, for the most part. The usual provision and practice is for the appointing officer to have a right to remove an employe during probation without formality, but if he fails to do so within the probationary period the appointment becomes complete, largely by default. Appointing officers in general do not like to take such drastic action as is involved in removal so that, in practice, removals during probation are very rare. The value of the probation device would be increased by a positive, instead of a negative, application of the principle. Before an appointment could be deemed complete, the appointing officer would be required to certify positively, prior to the end of the working test period, that he had observed the work and conduct of the appointee and was satisfied that he had the capacity and the willingness to make a good employe in the position. In the absence of such a certificate, the employment of a probationer would terminate at the expiration of the working test period, instead of being confirmed in the absence of positive action for removal.

The principles just discussed are, of course, not applicable to Montana unless it adopts a more or less formal competitive merit system of appointment. That it do so is desirable but, as mentioned, it could derive much benefit, though not all that it could make available, from an informal centralized procedure of qualifying or "pass" examinations as a guarantee of at least minimum qualifications in its appointees.

Besides the so-called "regular" appointments described in the preceding pages, there are a number of other methods, listed previously, which should take precedence over regular appointment, if a complete personnel system is adopted. These are discussed under subsequent headings.

Other Methods of Filling Positions:

Demotion: Any change of an employe from one position to another for which a lower maximum rate of compensation is prescribed, should be deemed a demotion. Demotion is both a means of separation of an employe from a position held by him and a method of filling a position of a lower class. Proper provision for demotion is also involved in the question of maintaining conditions of service that will conserve the value of the investment in good employe material and that will maintain conditions of service conducive to the best efforts of employes by assuring them of due consideration and fair dealing in cases where they are found unfit for the job to which they are first assigned. It offers an opportunity to find work that they can do in preference to arbitrary separation from the service.

In a service to which a well-planned personnel system has not been applied, and in many of those operating under what are intended to be well-rounded personnel systems, there is little recognition of the importance of, or adequate provision for, demotion. This results in disadvantage to the service. For example, under such conditions, an employe who has attained to a certain rank, status, and compensation, and who becomes unfitted for work commensurate therewith by reason of mental or physical handicaps due to advancing age, or by reason of decreased interest and effort, has either to be separated completely from the service, or to be continued at higher rank and pay than are justified by the work he does, when he might be able to render satisfactory service of full value, and be willing to do so, in a position of lower rank and pay and with less difficult or less onerous duties.

Under a service rating system a constant check should be maintained to see that the services of all employes measure up to acceptable standards. Those who fall below such standards consistently should automatically be brought under consideration for demotion to lower positions, with work they are qualified to perform, both as a matter of humanitarian consideration for employes that have given faithful and competent service, and as a means of conserving whatever of value remains in the investment in the employe, in any such case, if it is found that there is such value.

Employes should be encouraged to seek demotions voluntarily when they feel that they no longer measure up to the requirements of the positions they are occupying. Involuntary demotions should be subject to the same safeguards against abuses resulting in losses of good employe material as those suggested later with reference to removals.

In the service of the state of Montana there are no consistent practices and no uniform policies with respect to demotion. The personnel rules of the three agencies cooperating under the joint merit system council recognize demotion as a disciplinary measure, but there is no evidence that the devise is being used for non-disciplinary purposes.

Transfer: A transfer consists of a change of an employe from one position to another not involving a change in compensation, immediate or prospective. Transfer needs to be considered from both the standpoint of separation from one position and that of a method of filling another. A liberal transfer policy also promotes conditions of employment that are of benefit to the service.

Transfers should ordinarily be confined to changes between positions of the same class, but properly cover also any such change between a position of one class and a position of another class, with the same scale of pay, for which no additional requirements for eligibility are prescribed. The requirements for promotion, demotion, or original entrance, should apply in other cases.

Transfer is a very effective means of conserving good employe material that would otherwise be lost, and of promoting contentment and satisfaction such as to induce employes to do their best. For example, an employe may happen to have secured appointment to a position involving service where unavoidable clashes of temperament between the employe and his superior or associates are involved, or where the subject matter or routines of the work, or the location or other conditions of employment, are such as to lead to dissatisfaction on the part of the employe or the superior, or both. The employe may continue under the unsatisfactory conditions, doing low-grade work, when he might be able to render a very high grade of service under more propitious surroundings. Again, such conditions may lead to resignation of the employe, or attempted removal or demotion by his superior, with loss to the service. Again, change of duties of a position resulting in reallocation to a lower class, or discontinuance of work by reason of shortage of funds or other cause, may leave a capable employe stranded, who could be utilized to advantage elsewhere on duties of the class to which he was appointed.

Liberal transfer provisions serve as a means of correcting such conditions and of offering opportunity for employes to find the niches in which they can render their best services in the classes of employment for which they have qualified.

The personnel officer should cooperate in finding places for misfits where he deems that better service could be secured

thereby. Of course, it is not intended that employes who have been unsuccessful or dissatisfied should be accorded special privileges by reason of such fact, but transfers should be provided for with a view specifically to the good of the service. In no event should an employe be forced by transfer on an appointing officer who does not wish to accept him.

Another type of situation involving application of transfer procedures is that of special or occasional work to be done, or of peak loads on the regular work, requiring additional help. Such needs for extra service beyond the normal occur at different times in different departments and agencies. It is very common for agencies to maintain year-round staffs almost, or quite, large enough to handle their peak-load requirements and to depend upon temporary appointments only for extraordinary needs. Careful attention to the varying requirements of the different agencies should make it possible to save substantial amounts in regular salaries and, by means of transfers and assignments from one agency to another, to keep considerable numbers of fully qualified and tested employes with permanent status busy all of the time, with reduction of temporary, extra employes to the minimum. As a matter of fact, it would be in the interests of economy and good service for the personnel officer to maintain a permanent clerical staff serving as sort of "flying squadron" composed of employes available to be thrown in as extra help at whatever points they are needed at different times.

Reinstatement and Reemployment: The term "reinstatement" is used in this report to refer to a restoration of a separated employe to the specific position previously occupied by him, and is thus distinguished from the term "reemployment," which is applied to the filling of any position of a class by a former employe of the class. This distinction is not commonly recognized, but is a desirable one to maintain.

Reinstatement and reemployment should be administered, not as matters of right of former employes, but as means of recovering good employe material that has been lost to the service. They also have their effect in promoting satisfaction with the conditions of the employment. They should be accorded only in the cases of employes who left the service with satisfactory records, marking them as desirable.

Reinstatement to the position formerly occupied should be a relatively simple affair, in the case of an employe with a good record who is wanted back in the position by his former superior. But if possibilities of reinstatement are allowed to lead to the holding open of positions of employes who resign to try some other employment, or for other personal reasons, to the detriment of the service, then it is better not to have any such provision, but to make every such employe take his chances under the reemployment procedure. In any event, no employe should be displaced to provide for reinstatement of his predecessor.

Reemployment is generally a matter of greater formality. By its means provision is made for restoration to the service of

former employes who have resigned, where their specific former positions are not open or where their former superiors do not wish to ask for their reinstatement. Also, former employes with good records who were laid off, and employes removed during probation, or demoted, or otherwise discriminated against unfairly, whom it is desired in the interests of the service to give further opportunity under different appointing officers, are proper subjects for reemployment where transfer opportunities are not available.

In the absence of any general personnel system in Montana, reinstatement and reemployment involve no problems. Appointing authorities may restore former employes to the service just as freely as they could appoint anybody else.

The personnel rules of the three agencies cooperating under the joint merit system council do provide for reentry to the eligible lists without reexamination for a period of two years after voluntary separation from the service. The legislative assembly has also provided that a vacancy does not exist in any given position by virtue of the fact that its incumbent has entered the military service of the United States. With these exceptions, most of the appointing authorities decide each case on what they consider to be its particular merits.

Promotion: Promotion involves both a matter of separation from a position and a method of filling a higher position. Its principal importance, however, is derived from its use as a device to improve the conditions of the service as a means of encouraging qualified people to enter and to devote their best efforts to their work and to their own development as means of qualifying for advancement. One of the most effective means of contributing to these ends is that of a policy and procedure that will open the service wide, from bottom to top, for advancement of the employes best fitted for the higher positions, on the basis of their merits and their merits alone. This gives most effective expression to the objective voiced in the slogan "make the service a career," that is often heard. Rarely is adequate provision made for realizing its full possibilities.

Full application of the promotion principle would call for absolute preference to employes in the service in filling higher positions, whenever there are any such in lower positions who are able and willing to demonstrate their qualifications competitively among themselves. Objection is sometimes made to such application, on the grounds that it would tend to promote stagnation and bureaucracy; that new life and vigor should be promoted by frequent infusions of new blood from outside; and that such lowering of employe standards as would result (as by appointment, in an extreme case, of an employe who barely meets the minimum requirements, when highly qualified eligibles might be secured from outside) is unwarranted.

In practice it would be found that the probabilities that the disadvantages cited in the objections would result in any such degree as implied, are considerably exaggerated. Application of the principles advocated would bring new blood into the higher positions,

consisting of qualified employes recruited from outside, whenever there are not enough employes in the service who offer themselves and qualify. This could be expected to happen often enough to keep up the tone and caliber of the service. Also, extreme cases in which employes barely qualified would be appointed to higher positions by promotion in preference to persons of much higher qualifications available from outside, would be relatively rare.

The greatest danger to an effective promotion system usually is found in a short-sighted attitude that often develops on the part of the rank and file of employes, who try to insist on policies that place a premium on mediocrity, instead of affording the greatest incentive for the best endeavors of the most capable employes. For example, employes frequently advocate and defend flat ratings on seniority, which allow the same credit for a given period of service to an incompetent employe as to a competent employe. Employes frequently contend also for restriction of eligibility for promotion to the narrow limits of the department or smaller organization units in which the vacancies exist.

As a matter of fact, tests for promotion might well be kept as wide open to employes in the service as original entrance tests should be to other persons. There is much to be said for a policy that would permit any employe who can show that he meets reasonable, prescribed requirements for entrance to the tests, to compete regardless of whether or not he has been occupying a position that is considered to be in a direct line of promotion or whether or not the position occupied is considered to be of the next lower grade.

The rating in which length of service is involved should be on experience, corresponding with the similar rating in original entrance tests. Kind and quality of experience, as well as mere seniority or length of experience, should enter into this rating. The actual experience that the employe has had - the work that he has been doing - should be the basis of credit, not merely the fact that he has been employed under the title of a class presumed to involve work in line with that of the higher position, when he may actually have been doing work of a different kind.

In many systems, employes have been successful in confining promotions to the narrow limits of the particular organization units in which vacancies in the higher positions occur. As a result, the service is deprived of the opportunity of securing for every higher position the most competent employe that it can find in its entire service. It must take what the particular organization unit has to offer, or go outside the service, whereas there may be a wealth of splendid material available in other departments. Under such a policy many able employes find themselves at the ends of blind alleys simply because there are no higher positions in their own lines of work in their particular organization units, while less competent employes in other departments forge rapidly to the top. There is little in such a situation to encourage the most capable persons to seek to enter the service and to win advancement to the higher positions by earnest effort.

If the level of ability of employes in the higher positions is to be maintained, there must be no lowering of standards to the qualifications of the employes who happen to present themselves in competition for promotion. Such a lowering of standards is likely to come about unless it is guarded against. As a matter of fact, there is no reason for any different standards, or material difference in the tests applied to determine eligibility for promotion, from those applied for original entrance. The only differences that need be recognized are the limitation of the promotion tests to employes in the service, and the fact that experience is rated on the actual work that the employe has done, in and out of the service, whereas a candidate in an open entrance examination usually has no experience in the same service to be rated.

In Montana, employes are often advanced from lower to higher positions within the several agencies. With the exception of the three agencies served by the joint merit system council, there is, however, no general policy nor is there any established procedure for making any particular policy effective. The personnel rules of the state department of public welfare, the state board of health, and the unemployment compensation commission provide for filling positions by promotions whenever possible. The appointing officers of other agencies of the state, theoretically, have complete freedom in making their selections for appointment, aside from such pressure as may be applied in favor of individuals, and, hence, they are as free to select employes already in the service as persons outside the service, but there is nothing to compel them even to give consideration to the good employe material there is in the service. Other than the system serving the three agencies mentioned above, there is no system of testing to insure getting the best of the available employes, any more than there is such a system for getting the best appointees for original entrance.

There is, of course, no general system of promotion across agency lines. Appointing officers may draw on employes of other departments just as they may go to the service of any outside employer when they so desire.

The state would benefit greatly from a comprehensive promotion plan, developed and applied along the lines discussed. Beneficial results in less degree could be attained by a less nearly complete, or a less formal, application of these principles.

Temporary Appointment: Unless adequate attention is given to the problems involved in temporary appointments, they frequently constitute one of the weakest points in a personnel system, and one of the most troublesome. Under reasonable definitions and restrictions there need be no problem, regardless of how generally the requirements for competitive selection may be applied to regular appointments.

Under conditions where a temporary appointment ought to be considered permissible, no other method of filling a position (transfer, promotion, regular appointment, etc.) would call for consideration. Such an appointment is intended to be restricted to a short

period, when other means of providing for service that should be rendered, are not available, or the interests of the service do not permit them to be applied.

They ought to be regarded as undesirable exceptions to the standard requirements and procedures that should be applied, and thus as necessary evils to be closely controlled and restricted, to the extent practicable, being allowed only under conditions to be specified, where the interests of the service are to be served thereby.

Very rarely is found any recognition in civil service laws, or by personnel administrators in their current practice, of the real factors and considerations involved in temporary appointments. This is commonly found to be one of the weakest points in civil service systems.

Not often, for example, is there found a clear dividing line marking off the period for which temporary service may be authorized, from any more extended period that calls for an employe with permanent status. It is true that limitations are usually imposed by law on the periods for which temporary appointments may be approved. Sixty and 90 days are limitations commonly applied. But such limitations seldom mean very much in practical effect, as extensions are freely permitted.

Rarely is there rigid application of a requirement of approval in advance. Such a requirement is necessary for effective control.

Often the laws require temporary appointments to be tendered to any eligibles on the appropriate list before persons not listed as eligible can be appointed. This ignores the often emergent character of need, which will not permit waiting to canvass the eligible list to see whether any eligible will accept. It ignores the fact that many temporary appointments are of extremely short duration, often one or two days. If temporary appointments are in fact confined to short periods, as their nature and purpose as exceptions to the regular processes call for, it is not worth while to take the time and go to the trouble of canvassing the list to find out in each case whether any eligible will take the few days of work that may remain by the time their availability is ascertained, and to break in a new temporary employe for such few days. It is better to exercise control to see that temporary appointments are authorized only in cases in which they are really warranted and to confine them to such cases, and to consider that, in the relatively few cases that will be authorized under such close control, it will not be worthwhile to bother about offering the appointments to the eligibles.

Similar considerations apply to testing the qualifications of temporary appointees designated by appointing authorities, a requirement frequently found in civil service laws. It is usually impracticable, where a temporary appointment is really warranted, to delay appointment until the tests can be made, and usually the authorized period of temporary employment would be well over before the results of the tests would be known.

It is best to consider that, whenever the personnel agency is unable to provide eligibles to meet the needs of an appointing officer, as it cannot do, ordinarily, to meet the needs for temporary appointments, such officer should be entitled to use the services of any persons acceptable to him.

Some civil service laws limit temporary appointments to cases in which there are no eligibles available, thus implying that no temporary appointment shall be made when there are such eligibles. Such provisions ignore, and fail to provide, for the three distinct types of temporary appointments that need to be recognized as necessary to provide for three different kinds of situations. These may be designated by the terms provisional, transient, and emergency appointments. They are described in the next paragraphs.

When there are no eligibles from which a regular appointment can be required to a vacant position that is expected to continue longer than the statutory period for a temporary appointment, and the work ought to be carried on, it is customary to provide for a "provisional" appointment until eligibles can be secured and regular appointment can be made from among them.

Appointments of this type have constituted one of the most prolific sources of abuses of merit provisions. Such abuses usually involve the connivance of the personnel agency. Because of such abuses, some of the recent civil service laws have contained flat prohibitions against any extension of any provisional appointment or other temporary appointment beyond the original period authorized or otherwise have imposed limitations unrelated to those needed. This is shortsighted, because it fails to visualize the practical needs of individual cases.

It is obvious that there may be many occasions in which it will be important to maintain a necessary public service through the medium of provisional appointments over considerable periods until permanent appointments can be made. The law should be so framed as to permit this to be done, with proper restrictions to prevent abuses. Such restrictions are best provided by means of a prohibition against continuation of a temporary appointment of this kind during any period in which all practicable efforts are not being made to provide eligibles for filling the position and a requirement that the approval of each extension bear a certificate reciting the steps that have been taken, or the reasons why effective steps have not been taken, resulting in a public record placing the responsibility for any improper extension right where it belongs.

A provisional appointment in the absence of available eligibles is the only kind of temporary appointment that is recognized in some civil service laws, though the need for provision for appointments for short periods of service of the two other kinds next described, should be obvious.

A "transient" appointment, or "job employment" as it is known in some services, is one in a case where there is extra work to be done for a short period, or a substitute is needed to carry

on work during the temporary incapacity or other absence of a regular employe. This is the most common type of temporary appointment where sincere efforts are made to keep down the number of provisional appointments. They are often of short duration, frequently one or two days. They are often approved, however, without regard to the period of service required, and are extended by successive authorizations for long periods, where regular appointments ought to be made. Often individuals with good influence secure practically continuous employment by means of successive transient employments under different appointing officers. This practice ought to be guarded against as favoring unnecessary creation of temporary positions as means of furnishing jobs to favored individuals.

An "emergency" appointment is a temporary appointment that needs to be made quickly, where time does not permit action to fill the position through other recognized means. The term "emergency" is so generally applied loosely, to temporary appointments of different kinds, that it has largely lost any meaning that it might have had. It is well for this term to be reserved for the use here given it. The emergency appointment should be limited to the short period necessary to accomplish action under one of the other provisions for filling vacancies. The usual limitation is to ten or, at most, fifteen days.

This whole discussion of temporary appointments is based largely on considerations that are involved when a formal system of regular appointments on competitive tests is in more or less nearly complete effect. It would need to be modified in its application to a service to which a less formal, or less nearly complete, application of such a system is made.

Appointments by Way of Exception to Competitive Merit Provisions:

Large numbers of positions are commonly excluded (as unclassified, or excepted) from the operation of all or most of the provisions of a public personnel system. As a rule, the personnel agency is considered to have no functions in relation to most such positions. It attempts to exercise no control over appointments and changes in status or separations, with reference to them. These are left entirely to the uncontrolled judgment of the appointing officers. Obviously none of the matters discussed under the preceding headings, relating to filling of positions, and those that follow regarding changes and separations, have any application to such positions when they are regarded in this light. Usually one of the main considerations in excluding some positions from requirements applicable to others, is to permit them to be filled and vacated for personal or partisan reasons, and changes to be made on similar grounds, without control. Other positions often are excluded from requirements of competition or from all requirements of formal tests. These the personnel agency usually has some control over.

It is easy to see that the personnel agency should have at least some functions with regard to all such excluded positions, if only those of keeping record of the facts without attempting to

exercise any control. This is important if only to insure that records relating to all positions in the service are available at a central point. But there is another feature of importance, even if the personnel agency is not to be given any control over the actual handling of personnel processes relating to some such excluded positions.

It is obvious that there should be some agency empowered to say that a position is, or is not, of a character to which an excluding provision actually applies. None other is in so good a position to exercise this function as the personnel authority.

Going a step further, it is clear that since every position in a service is a position of some kind or class, every position in the service ought to be included in the classification plan. Such a plan, in its essence, is merely a device for presenting a clear picture of the different kinds of positions that exist in the service, distinguishing the different kinds from each other, and designating each kind by an appropriate title duly related to those of other classes. Obviously the picture is not complete unless all positions, of every kind, are included in it.

Obviously, too, there is no position in a service that cannot properly be brought within the purview of the compensation plan in effect.

So, taking all of these considerations together, the personnel agency should have at least sufficient control over appointments to positions excluded from the application of any or all provisions of a personnel system to insure that each such appointment is actually to such an excluded position not already occupied by another incumbent, and that the class title and rate of pay accord with the classification and compensation plans. All appointments, and all changes affecting incumbents, relating to such positions, should accordingly be reported to the personnel agency, and be recorded. The audit office should require the personnel agency's approval of each appointment and change, as a certificate of regularity on these points, before approving payments.

Some public personnel systems provide for a category of "non-competitive" positions to which appointments are made, under the control of the personnel agency, by means of mere qualifying or "pass" examinations. As later brought out in this report, there is little ground for such a category in a service in which competitive merit requirements are applied as the general rule.

But at other points in this report it has been suggested that if Montana is not ready to go the whole way in establishing a competitive system, it can still reap substantial benefits from an informal testing procedure, which preferably would be competitive but which might go no further than non-competitive qualifying tests.

Non-competitive tests, if used under the policy in effect, can be applied cooperatively, with the assistance of employes of the several agencies, in accordance with standards and methods imposed by the personnel agency and under its general supervision.

Increases in Pay:

Increases in pay are quite commonly confused with promotions, particularly in services to which comprehensive personnel systems have not been applied. Often every increase in compensation is called a promotion even when there is no change at all in duties. On the other hand, changes to more difficult and more responsible duties very often are treated as mere matters of assignment and are given no recognition as promotions, often not even affecting either the titles or the rates of pay of the employes. The result is that in such a service, employes on more difficult and responsible work are often found working under titles and at rates lower than employes with less difficult and responsible work, who may even be subordinate to them and work under their direction.

It is obvious that a clear distinction should be made between a mere increase in pay and a promotion. The latter term should be used to apply only to a change from a lower to a higher position, as measured by duties, whether or not it is accompanied by a change in compensation, or in title. But in a service to which classification and compensation plans have been applied, a true promotion would carry with it changes in both these respects. Since it involves a change from a position of one class to a position of another class, a change in title would naturally be involved. Since it involves a change from a lower position to a higher one, there should also be a change in compensation. But because, in some personnel systems, the scales of pay of higher and lower classes are made to overlap, and in some cases personnel systems are incomplete to the extent of not applying consistent compensation plans, it is necessary to include in the concept of a promotion, a change to a position of higher duties even where there is no immediate change in compensation. Where a compensation plan is in effect, the definition of promotion desirably should include a reference to a change from a lower position to a higher one for which a higher maximum rate of compensation is prescribed.

Under a complete, modern personnel system, including a compensation plan consisting of scales of pay for the several classes, each scale comprises a series of rates. The best-accepted policy as to entrance rates is to require appointments to positions of any class to be made at the minimum of the scale for the class. In a case of transfer or reinstatement, a new employe enters a position at a rate of the scale no higher than that he last received in his former position or, if his former rate was higher than the maximum, than at the maximum rate of the scale. A promotion, like an original appointment, should be made at the minimum rate, except in the case of overlapping scales where the employe has been receiving more than the minimum of the new scale, in which case the same rule would apply as in the case of a transfer or a reinstatement.

Increases in pay of employes while they continue on the duties of a class are intended to serve as rewards for faithful and efficient work and for improvement and development which make the employes more valuable to the service. These beneficial results are largely lost when provision is made for the increases in pay to be

automatic, or when they tend to become so in practice. There is a tendency that is hard to counteract, but that should be resisted strenuously, for it to be regarded more or less as a right for each employe to be advanced by successive annual increases from rate to rate within the scale for his class, regardless of his competency or interest in his work, or any improvement he has shown. Employes naturally exert all the influence that they can in this direction. Employing officers usually are complaisant because they do not like to have to make distinctions among employes, as by recommending some for increases and not others.

Such a policy of automatic increases is an expensive one. It is expensive in direct cost because it results in paying out large amounts in additions to salaries of employes who have not earned them. But it is most expensive in the losses that result to the service from the failure to make the salary increase policy contribute, to more and better service and better employe contentment and morale, such as would result from using the increases as rewards in cases in which they are merited and such cases alone. When a salary scale for a class is correctly applied, only the best employes ever get to the top. The average competent employe cannot expect to get past the middle of the scale. Employes who are barely satisfactory stay at the bottom of the scale or near it. Those who completely fail to make good are demoted or separated completely from the service.

An effective service rating system is practically essential to the operation of a plan of salary increase along these lines.

There should be general regulations prescribing the periods of service required for salary increases from rate to rate within the scale for a class, and the required standards and proofs of merit needed to establish the right to increase from step to step within the scale, and likewise standards of minimum acceptable service with provision for reduction of pay, demotion, or removal of those who fail to meet these standards.

When employes that have earned advancement to the higher rates of their scales leave their positions, the rates should automatically go back to the minimums for the new appointees, who would in their turn have to earn the right to successive increases to the higher rates. This provision would supply incentive to efficient service and result in economy, with fairness to the employes.

Advancement to any rate of pay in excess of the maximum scale for a class should be secured solely by means of qualifying for promotion to a position of higher duties and responsibilities, and thus, by a definite change from a position of one class to a position of a different and higher class, involving higher duties and responsibilities hence a proportionately higher scale of pay.

In Montana, the matter of salary increases, in the absence of any standards of relative value of different employments, such as good classification and compensation plans provide, have not been systematically handled. With the exception of the agencies served

by the joint merit system council and with some other isolated exceptions, the rate of pay is usually a single rate for a position. No plan of increases for meritorious service exists, except as individuals may secure increases by appeals to the proper authorities. The large number of salaries, even for minor positions, fixed by statute interferes with any orderly plan for increases as an incentive for employes. Under such circumstances, it will be found that certain individuals and groups, in whose favor pressure for increases has been strongest, have received increases disproportionate to those allowed for less vocal groups. A good compensation plan, such as that outlined earlier in this report, should provide an effective basis for judgment of the relative values of the different employments. By its means, the correct relative rates for all positions can be determined almost automatically. This should make it possible to relieve appointing authorities of the burdensome and thankless task of passing on each individual case. The whole procedure should be made one of standardized routine.

Provisions for Training:

Increasing attention is being given to training as a means of providing more efficient employes, in public services in general. Provisions for training are of two general kinds, those by which intending applicants are prepared for specific fields of work, designed generally to prepare for entrance into these fields in the public service, and "in-service" training providing means by which employes can improve their ability on the work that they are doing, or prepare for advancement to higher positions, or both.

Training of the first type is provided, usually without special reference to the public service, by colleges and other schools that offer courses in medicine, law, social service, accounting, stenography, and typewriting, and other specialties. There has been considerable recognition in recent years of the special conditions and requirements of public services, and more or less well-organized efforts have been applied by administrators and educational authorities to get together on programs of special preparation for particular lines of work in them.

Likewise interest and activity have been increasing with reference to training of employes already in the service. The methods have embraced provisions for attendance at regular classes of established educational institutions, provisions, in cooperation with such institutions, for extension classes specially provided for employes, and utilization of the regular correspondence courses of such institutions, or others specially adapted. Besides, special classes and courses often are inaugurated within the public service itself, of general application or, more commonly, along specialized lines within individual agencies to qualify employes on the specialized techniques of the particular work they have in hand and prepare them for advancement.

It is well within the functions of a central personnel agency to interest itself actively in such matters. It is in perhaps the best position to deal with the authorities of colleges and

other educational institutions with a view to the inauguration of training courses to prepare for types of positions for which the supplies of qualified people are insufficient, or for which higher or better directed courses of preparation are desirable.

It is also in the most advantageous position to foster and promote provision for in-service training by contact with administrative authorities, those of educational institutions that might provide acceptable offerings for the purpose, and groups of employes who are interested, or might be interested, in courses of training.

Montana has no general provision for organized efforts along these lines. In general, the matter is allowed to take care of itself, and each employe carries his own responsibility for improvement and preparation for advancement. In the absence of general and recognized policies and procedures for promotion, the encouragement to employes to improve and develop themselves is not so strong as it would be otherwise.

Periods of Employment:

Necessity for Time Basis of Measurement of Service: Consistency of policy regarding service that shall be rendered in the various positions, for the amounts of pay accorded, is a rather important element in any sound personnel system. Obviously there should be a definite and clear relation between service rendered and pay. Otherwise there is no means of determining the fairness and equity of the rates and amounts of payment from one position to another. Since, ordinarily, wide disparities do exist in the relations of time engaged to the rates of payment, as between positions alike in the nature of their duties, fairness and equity demand consistent application of time measures.

Extent of service, measured on a time basis, is affected by the hours of service required a day and a week, the holidays allowed, the vacation periods made available, and leaves of absence, uncontrolled and unrecorded absences, late arrivals, and early departures.

There can be no equity in a situation in which any two employes engaged upon exactly the same kind of work are given widely different privileges in these regards. Those familiar with any public service should know that where general policies of consistent application are not in effect, the practices in these respects vary widely from one department to another, even in the cases of rank and file employes of similar types. Some department heads are strict in their enforcement of attendance, and in their control of vacations and other leaves of absence. Others are extremely lenient in these regards. The treatment often varies as between employes of the same department or office.

It stands to reason that if uniform scales of pay are applied for positions of the same kind, uniform standards as to the periods of service required, and the authorized holidays, vacations,

and other leaves of absence to be allowed, need to be established and uniformly applied.

By this it is not meant to say that the hours of work, vacations, and leaves of absence need be identical for all different kinds of employment in any service, but it is important that there be consistent policies that should be imposed by central authorities and regulated by central control. Matters should not be left to the whims of the individual operating executives, either as to the policies to be applied or as to the leniency or strictness with which the requirements are enforced.

The rates of pay in the compensation plan offered as one of the products of the present study,

The rates of pay in the kind of compensation plan discussed in this report are the amounts intended to be paid for full-time employment. It is proposed that procedures be applied by which but proportionate parts of the full-time rates provided in any compensation plan adopted will be paid in any cases in which less than full-time service is actually rendered. What is to be accepted as full-time employment should be prescribed by specific rule or regulation, which should apply to all types of positions regardless of rank or official standing. Positive evidence of the extent of actual service should be required as a basis for audit of every payment, under these provisions.

Hours of Service: There are several variations in the hours of duty required in the various units and also as between different groups of employes within given units. The most common number of hours for full-time positions is 39 a week, with an occasional requirement of service on Saturday afternoons. The latter situation in the capitol offices is the result of an outmoded law requiring public offices to remain open on Saturday afternoons, although little business is transacted. There seems to be no reason for continuing this act in force, since it is honored more by way of evasion than by way of strict application.

It is proposed that hours of service be standardized for all units, with due regard to differences warranted by variations in kinds of employment, as between groups of employes. Recognition should be given to the types of employment, such as professional, clerical, attendant, domestic, and labor but the hours for each type of employment should be standardized as between units.

In several of the state agencies, overtime is put in by some individuals without additional compensation due to the nature of duties or shortage of personnel. Of course, employes should be expected to take enough interest in their work to meet any unusual demands of the work. But any special conditions, necessitating excessive overtime, should be met by staff adjustments, so as to equalize the burdens from one unit to another. This should be a special concern of a central personnel agency.

Holidays and Leaves of Absence: The laws of Montana prescribe ten official holidays in addition to general election days. There is no general policy throughout the state agencies as to

vacation allowances, although twelve working days is the most common leave. Considerable variation among the different agencies has been found with respect to sick leave. Some agencies allow one day a month, some allow one and one-half days a month, and others have no set policy but allow leaves in individual cases at the discretion of the appointing officers. There are even variations with respect to sick leave allowances among the three agencies served by the joint merit system council. The heads of the several state agencies have the sole authority in determining such matters as whether an employe's vacation must be taken all at one time or may be divided into different periods; the periods of employment to be required before vacation privileges accrue; the conditions under which sick leave may be granted; and whether sick leave may be accumulated from year to year or must lapse at the end of the year.

Lack of uniform standards and their consistent application as to the periods of formal leave of absence, as for vacations and sickness, are not so serious in their effects as absences informally permitted. That is where the greatest unfairnesses as between different employes, and the greatest losses and wastes of service that is paid for, but not rendered, are commonly found in public services where definite policies are not in force and specific procedures are not applied to control them. There are no records or other means of ascertaining the extent of such losses and inequities in Montana but checks that have been made in other services have shown that losses of employe time from such absences amount to almost unbelievable totals.

Clearly, general policies should be established, with procedure by which their consistent application can be insured. Such matters should not be left to the uncontrolled judgment, possibly even whim, of administrative officers, from which inequities and wastes are bound to result.

A desirable plan of general regulations for leaves of absence provides for leaves with pay, limited to two types - annual leave and sick leave. Further provision would be made for leaves of absence without pay and for action on absences without leave.

The sick leave allowance should preferably be on a cumulative basis. By this is meant that any of the allowance not used in a given period would be added to the allowance of the next succeeding period up to a stated maximum.

An allowance of twelve days a year, or one day a month, is suggested, to accumulate for a maximum of five years, to a possible total of sixty working days if none of the allowance is sooner used. This plan would provide for taking care of the more common short periods of illness and, at the same time, would make reasonably adequate provision for occasional extended, and often catastrophic, periods of serious illness. But it would accomplish this latter end without the unfairness and discrimination, as between different employes, that is involved in the present practice of treating each case "on its merits" without regard to consistency or standardization. An employe who becomes incapacitated for duty in one unit may now be

allowed practically indefinite leave of absence with pay, whereas another under exactly corresponding conditions may be dropped from the payroll temporarily or permanently, after a short period of permitted absence with pay.

The suggested plan would tend to reduce malingering and inclination of employes to report themselves ill for allowances of absence for sickness at the slightest excuse, as often happens under other plans of sick leave allowances, because it would afford an inducement for the employes to regard the sick leave allowance as a valuable asset to be conserved for emergencies in which resort to it is of vital importance.

Of course, the sick leave provisions would have no application to illness and injury for which the work itself is directly responsible. These would be taken care of as a responsibility of the state as employer under workmen's compensation provisions.

The annual leave provision would be intended to include the customary allowance for vacation and every other provision for allowance of absence with pay except sick leave. If all classes of leave, except sick leave are included, a standard annual allowance of 18 days - one and a half days a month - is suggested.

In connection with both the annual and the sick leave allowances, provision should be made for the standard allowances to accrue to temporary and part-time employes, and new employes who have worked less than a year, in proportion to their actual periods of employment.

Provision should likewise be made for leaves of absence without pay and for their restriction to cases in which the interests of the service are conserved, or at least are not prejudiced, by absences allowed under its provisions. Above all, it should be the policy of the state to frown upon leaves of absence without pay for extended periods during which the positions are kept open, by recourse to temporary appointments or otherwise, for the return of the employes on leave. In particular, it should be the policy, in cases of employes desiring leave of absence to try out other employments or businesses with a view to resignation on meeting with success, to require the employes to take such ventures at their own risk by resigning and taking their chances of later reinstatement or reemployment in case they then desire to be taken back into the service.

It should be made clear that every absence permitted represents a privilege, and not a right. So far as practicable, leave of absence should be applied for and specifically authorized beforehand, and absence should be permitted only for such times as the employes concerned can be spared, with the interests of the work primarily in view. Prior authorization of leaves, of course, is not always practicable, particularly in cases of illness and other emergencies. But prompt notification of superiors in such cases should be insisted upon as a matter of current practice.

There should be provision for enforcing a general policy against the making of temporary appointments or other provision for substitutes, to take the place of absent employes, at the expense of the state. There will, of course, be cases in which leave of absence cannot be granted without provision by means of substitutes for keeping necessary work going, but these cases should be reduced to the minimum and the general policy be that the work of an absent employe be absorbed by others in the organization, or be left to accumulate for him to catch up on upon his return, where promptness in keeping it up to date is not essential.

Every absence not covered by a formal grant of leave of absence should be treated as a leave without pay and result in a proportionate deduction from pay. In addition it should be treated as a matter calling for disciplinary action even to the extent of removal in an aggravated case.

Control of Attendance and Absence: As has been indicated in the preceding discussion, it is not enough to prescribe what service shall be required and what absences can be permitted, to insure the carrying into effect of a policy established to govern such matters. There needs to be a thorough-going procedure by which to see that the policy expressed is actually carried out, if very considerable losses and substantial variations in the strictness of enforcement from one unit to another resulting in unfair discrimination, are to be prevented.

Effective application of such policies can be insured only by means of a procedure by which the actual payments to employes are based upon adequate and positive information as to the service actually rendered and the absences from duty that actually occur.

The existing practices as to attendance records have not been standardized and vary widely among the state agencies. In some cases, no records are made and reliance is placed on mere observation by supervisors. In other agencies, as, for example, in the three agencies served by the joint merit system council, attendance records are kept and used as a basis for preparing payrolls. Some check on the activities of field employes is furnished by means of daily or weekly work reports in several agencies. More exact records are kept by most of the agencies where hourly or daily rate employes are concerned.

The payrolls are prepared by the several agencies, often as a matter of routine, each one being copied from the one preceding except as new appointments and changes call for modification. There is nothing on the payroll to show the actual facts as to the service performed. It is only a presumption that payrolls are based upon actual records or information that service has actually been performed for the full period for which payment is proposed to be made. The signatures of certifying officials on such payrolls tend to be attached in a rather perfunctory way.

Payrolls so prepared and presented are audited largely by comparison of each payroll with a card file in the office of the clerk of the state board of examiners which shows the name of the

employe, the salary rate, and the authority for employment. But there is nothing in such audit procedure adapted to detecting cases of employes whose names appear on the payroll as entitled to the full amounts of payment for periods in which they have rendered no service at all, or less service than that represented by the amounts of payment claimed. Thus the way is left wide open for any administrative official to apply any policies, or even whims, that his own judgments or desires may dictate, in spite of any general policies that a central authority may undertake to prescribe.

The only effective way to meet this situation and provide for the consistent application of any definite policies adopted is that of a thorough going and painstaking audit of salary payments on the basis of positive and independent information as to the actual facts involved in the employment.

Resistance is to be expected to any time-reporting requirements, particularly on the part of many employes of administrative and professional type who may regard any requirement of time recording or reporting as beneath their dignity. But the importance of such positive records is so great that this requirement should be insisted upon as a basic essential for authorization of payments.

Discipline:

Discipline involves any measures that may be applied to employes, for corrective or punitive purposes, with a view to influencing their attitudes, or those of other employes in the service toward their employment. They may vary from the comparatively light ones of withholding privileges, of cautions, and of reprimands, to the more drastic ones of suspension or removal.

Discipline in the first instance is a responsibility of the administrative authority in charge of an activity. But the personnel agency should be interested in the matter also from the standpoint of prevention of unfairnesses and that of maintaining high morale, as well as that of preventing losses of good employe material through more drastic action than circumstances demand.

These ends are to be secured by means of advice and consultation with appointing authorities and employes, resort to the transfer and reemployment devices in cases in which discrimination against employes are shown and in which conditions of better understanding and fair play cannot be brought about. In none other than extreme cases, such as involved in removal of valuable employes of one-position classes, whose cases could not be adjusted otherwise, should there be any question of overruling the action of an administrative authority.

Removals (including suspensions), transfers, demotions, and retirements, all of which may be involved in disciplinary cases, are discussed as personnel processes, elsewhere in this report.

Welfare and Morale:

There have been frequent references throughout this report to the desirability of doing everything possible to keep up the morale of employes in the service. The principal objectives are to induce qualified persons to want to enter the service and to induce those who do enter to give their best efforts to providing the highest possible service that they are able to render and to prepare themselves for advancement in the service. Appointment, retention, and promotion strictly in accordance with merit, compensation in accordance with work done, consistency of policy and equality of opportunity as to promotion, pay increases, and other matters involved in personnel administration, are factors as discussed in the treatment of these matters as elements of a personnel system. There are other matters not directly involving personnel practices that are worthy of attention, both as matters of interest to the employer and his employes as such, and for purposes of increasing the effectiveness of the service, such as the working quarters, measures for the protection and promotion of health and security, provision of facilities for recreation, and other matters of general welfare. The personnel agency can assist in the advancement of the service generally by considering itself primarily responsible for planning and promoting measures directed along such lines, through the heads of activities and representatives of employes, and in other ways. Little evidence was found, in the course of the study on which this report is based, of any organized, tangible efforts or definite measures in effect to maintain or improve the morale of employes other than the leadership furnished by the heads of some of the agencies.

Separations from the Service:

Removals and Suspensions: Among the early civil service laws, and many of the more recent ones, great emphasis is placed on restriction of removals and suspensions to prevent removal of competent employes for political reasons. Many of these restrictions have been so rigid or their spirit and intent have been so poorly and unwisely interpreted that they have actually had the effect of preventing the removal of even incompetent employes. Where this has happened, a marked decline in morale, discipline, and employe effectiveness has naturally resulted and this has brought the whole civil service system into bad favor with administrators and some business men.

The exacting restrictions that often have been placed about the process of removal are largely due to the pressure of employes, who naturally want to make it difficult for removals to be effected. The attitude of a certain school of civil service reform advocates is largely the opposite, as indicated by the statement that, if the front door is taken care of, the back door would take care of itself. By this is meant that, with strong merit provisions effectively applied to entrance, there is little inducement for arbitrary removals since they would not result in leaving positions open for partisan political appointments.

The desirable point of view from the standpoint of the good of the service, lies somewhere between these extremes.

Provision for continuous attention to clearing away"dead-wood" of inefficient and time serving employes, is just as important as attention to seeing that competent employes are not lost to the service by arbitrary or misguided action of appointing authorities.

The personnel system should provide for application of a service rating system in such ways as to bring to attention the cases of employes who are unable or unwilling to render service that meets reasonable standards of quantity and quality, or who otherwise conduct themselves in such ways as to make them undesirable employes. The personnel agency should take the initiative in a constant weeding out of such employes, with removal as the ultimate recourse, if satisfactory adjustment to provide for effective service cannot be brought about by means of transfer, salary reduction, demotion, or other less drastic means. Such action should tend to keep the employes in the service generally "on their toes."

There should, of course, be some adequate check to see that removals and suspensions are used only under proper circumstances. Removals should be considered primarily as measures of discipline. Likewise, suspensions should be considered simply as temporary separations.

The personnel agency should have authority to ascertain the facts in any case in which it appears that unfair discrimination or possible loss of good employe material are involved, in any appropriate way as by reference to the records, or inquiries of persons who know the facts. So far as possible any aspect of a formal trial or hearing as to guilt or innocence of an employe of specific offenses charged, ought to be avoided. Even in an extreme case of removal the question should be not primarily the guilt or innocence of the employe of an offense, but rather his fitness to be continued as an employe of the service in view of the facts brought to light, and the adjustments that might be made in the particular case to provide for conserving such value as an employe. From this angle the types of inquiry and the questions to be answered are almost identical with those involved in determining the fitness of an applicant for original entrance. Of course, a finding that an employe is not worth saving to the service should terminate the matter.

But often in cases involving, primarily, maladjustment between a worthwhile employe and his superior, the personnel officer, by contact with both, should be able to promote better feeling and better understanding. In other cases provision can be made for transfer of employes involved to positions under other appointing officers, or for the placing of the names of the employes upon the reemployment list for certification to other such officers.

Resignations: Resignation from the standpoint of the personnel agency involves two main aspects in which responsibility ought to be placed upon the agency. The first is that of responsibility for seeing that what is represented and reported as a resignation is not a forced resignation and thus in effect a removal, and

to be treated as such. The second is that of finding out, to the extent practicable, the real causes of resignations with a view to correction of employment conditions that result in avoidable losses of good employes where such conditions are responsible.

Not only should the personnel officer be interested in any facts that an employe reported as resigning may desire to convey to him, but he should take the initiative in securing information from such employes as to the real grounds.

Retirement: Adequate provision for retirement of employes who have passed their previous usefulness and become unfitted for service by advancing age or physical or mental incapacity is considered an important element in a modern employment system. It works in two ways, one, that of getting rid of employes who may be drawbacks rather than helps to the service, and the other, that of making openings for younger, more vigorous, and alert employes. Both these results are commonly attained at relatively slight additional cost above that of retaining a superannuated employe, very often continued at the high rate of pay that he has attained through long years of service, and at considerably less expense than is involved in providing an additional employe needed to do the work while the superannuated employe is retained on the payroll.

A humane retirement policy also helps to make the service attractive as a career to capable and ambitious persons seeking to enter it and employes in the service who desire to make the most of their opportunities for increase in pay in their present employment and advancement to higher positions.

In a very real sense, a good retirement plan is an improvement that a service is really paying for whether it has it or not, either through the deadening effect of continuing numbers of superannuated people on the payroll or, if it goes to the extreme of dropping those who become incapacitated, through a reputation gained as a hard taskmaster.

In Montana, with the exception of the teachers' retirement system, which is discussed in another report of this series, there is no formal provision for the retirement of superannuated or disabled employes. Replacement of some such workers should be made, and more able employes should be substituted. Administrative officers are unwilling to recommend removal of such superannuated or disabled employes unless some financial provision is made for them.

Careful consideration should be given to the possibility of establishing a sound retirement system.

Layoffs: Layoffs have been mentioned in connection with reemployment. The term is applied to separations from the service that are made necessary by reductions in staff due to stoppages of work from lack of funds or other causes.

Where occasion for layoffs arises as a necessary evil, a wonderful opportunity is afforded for weeding out the service so as

to retain the most competent employes and get rid of those least competent.

The beneficial results possible from such a situation are commonly precluded by insistence of employes that layoff and subsequent reemployment be made in strict order of seniority, no preference being given to the highly competent employe over the least competent one. Such a mistake should be avoided in the provisions for a personnel system discussed herein. Both layoffs and reemployments should be made in inverse order of merit in the service, preferably to be established by means of the proposed service rating system, rather than in the order of seniority.

Elimination of Considerations Other Than Merit:

No employe in the service should, by reason of that fact, be considered as under any obligation to perform any political service, or to contribute to any political campaign or purpose. Federal legislation on this subject is already applicable to those state employes working for agencies whose activities are financed in part by federal grants. Employes should, of course, be free to exercise their rights of suffrage as citizens and to express their political opinions privately, but should be prevented from taking any active parts in political management or campaigns, such as would be offensive to citizens of different political belief, and would tend to bring discredit to the service.

Enforcement of Provisions for Personnel Administration:

In any formal personnel system that may be adopted there needs to be adequate provision for enforcement to make its provisions effective. Prohibitions and penalties for violations, particularly against fraudulent practices, and against political discrimination and coercion, are important. Provision for enforcement by legal action initiated by the personnel agency in cases in which the constituted law officers fail to proceed, and for taxpayers' actions, are worthwhile provisions, to put teeth into the statutory provisions.

Positions to Which the Personnel System Should Apply:

Strictly speaking, whatever personnel system any employer may adopt as a means of effectuating general personnel policies, should apply to all positions in his employ. This is but logical, since such a system is merely the vehicle for the orderly handling of all of the employment processes and some or all of these processes apply to every case. But largely because of the history of the merit system in government employment, as a means of restraining political influences through the application of the merit system to appointments, it has been customary to leave out large blocks of positions which it has been desired to leave open to appointments on a political basis, and some others considered not worth while to subject to testing routines. The blocks so left out have extended

from the ranks of the lowly unskilled laborers, and menial workers at institutions, to those of the highest executive type.

Considering the matter solely on logical grounds, there is no position in any service, whatever its rank or dignity, or however lowly and unimportant it is, or what the peculiar circumstances surrounding it, as to which benefit to the service is not secured from including it within the sphere of a centralized personnel system, if only for record purposes and to make sure that it is actually of a kind intended to be excepted from the general requirements.

Certainly every position is some one kind. So no position is properly outside the sphere of classification of positions, the primary object of which is to establish what different kinds of positions there are and their essential differences from each other. The classification picture of any service is incomplete when any position, high or low, or however peculiar to itself, is left out.

Typical of provisions of a complete civil service system that are of a nature to call for their general application to all positions are:

(1) Those against fraud, forgery, false swearing, political coercion, discrimination on political or religious grounds, bribery, and the like.

(2) Those relating to budgeting of positions and to payroll procedures.

(3) Those relating to classification and the fixing of compensation according to a consistent plan.

(4) Those relating to reporting and the keeping of roster records showing all appointments and changes.

So, as can readily be seen, there is little real logical ground for completely excluding any positions from the provisions of a personnel system. Where the real object in view is to prevent the application of merit provisions, involving competitive tests, this can be accomplished within the framework of the personnel system merely by excepting them from the requirements of such tests. This would be the case, for example, in the selection of the elected officers and also, ordinarily, in the appointment of policy-determining department heads.

But of the positions commonly placed in an "unclassified service" excepted from all requirements of the personnel system, or in an exempt service, on the asserted ground that they are kinds for which competitive tests of fitness are not practicable, there are very few as to which this is really true.

It is a perfectly obvious fact that, before anyone can be fitted to any kind of position, someone must be possessed of some information about him and must make a decision thereon to the effect that he, rather than someone else, has the necessary qualifications,

political or otherwise, whatever they may be, and is better qualified. The securing of such information, and the making of decisions as to the relative qualifications of those available, involves some degree of testing and rating of candidates and comparison of the qualifications of one with another or with some standards, crude or otherwise. Since someone must make these decisions, it is but logical, if they are to be made on the sole basis of merit, that the agency that is established to specialize in such matters should be the one to arrive at them, in a systematic and orderly way.

It is usual to exclude employes of the legislative assembly from any personnel provisions applicable to other state employes. The selection of these employes in Montana is apparently on a less satisfactory basis than selection of any other state employes. Whether or not they are brought under any formal provisions as to selection, the proposed personnel agency could render invaluable service to the legislative assembly in the selection of employes for the legislative assembly.

Summary of Recommendations:

A number of specific recommendations and a number of general suggestions are made in this report for establishing a sound and modern system of personnel administration for the state of Montana. Partly because of their number, because of their interdependence, and also because many of them should not be considered except in their relation to the system as a whole, the recommendations cannot be set out separately as can those in some other reports of this series. For a complete picture of what should be done to provide a sound and modern system of personnel administration, it will be necessary to refer to the text of this report.

However, in the following summary an attempt is made to set out some of the main features of the proposals in this discussion in the form of separate "recommendations." They are presented in two classifications, one group including those that can be put into effect in part at least without any enabling legislation, to the extent that funds can be found for any necessary administrative expense, and the other group including those that cannot be put into effect until legislation is enacted. Without exception, however, those listed in the first group can be carried into effect only partly without legislation, and it would be desirable to enact suitable legislation to give them more complete effect.

The recommendations are:

Recommendations Not Necessarily Requiring Legislation:

(1) That, as a preliminary step to the enactment of more suitable legislation, there be delegated to the office of the state accountant, as the predecessor of the proposed department of finance, the responsibility for recommending to the governor such action as the governor may be required or authorized to take under Chapter 5 of the Laws of 1937; that the state board of examiners delegate to the same officer the responsibility for maintaining the personnel files required of it by said act and the responsibility for approving salary payments required by the constitution; and that provision be made temporarily in the office of the state accountant for handling such personnel matters as may be prescribed, pending legislation.

(2) That, regardless of whether or not steps are subsequently to be taken in the adoption of a complete and modern system of personnel administration, measures be taken now to develop, adopt, and apply comprehensive and equitable classification and compensation plans to cover all positions in the state service.

Note: Where salaries are fixed by law, any adjustments to bring them in line with such compensation plan would have to await legislation, but the plan could be prepared without waiting for legislation.

(3) That an effective service rating system for the evaluation of the quantity and quality of service rendered by each employe be adopted and put in effect; and that the ratings under such system be used in such processes as determining eligibility for promotion and salary increases, determining the order of layoff and reemployment, and determining the need for corrective action by means of salary reduction, demotion, retirement, or removal.

(4) That consistent rules be promulgated and uniformly applied governing all such matters as hours of work, annual leaves (vacations), sick leaves, leaves without pay, and holidays; and that steps be taken to see that the facts as to time worked, leaves taken, absences, etc., are formally recorded for all officers and employes:

Recommendations Requiring Legislation:

(5) That, in the proposed department of finance, or in a separate personnel agency if it is deemed preferable to establish such separate agency, provision be made by law for the administration of personnel matters for all state agencies along such lines as may be specified by any executive orders or any legislation dealing with personnel matters or providing for a personnel system.

(6) That legislation be enacted to put into effect a complete and modern personnel system such as is outlined in this report; or, if such a complete system is deemed not to be feasible of adoption, that as many as possible of the severable parts of such a system be enacted into law; and that consideration be given to including in whatever legislation is enacted the features set forth in the recommendations that follow.

(7) That the personnel legislation enacted provide for a suitable and uniform method of establishing positions as outlined in this report, and for audit, by the proposed department of finance, of the transactions involved in authorizing and filling positions.

(8) That the personnel legislation enacted recognize, as means of filling positions, the following processes:

(a) Regular appointment by way of original entrance, involving a period of trial on probation.

(b) Temporary appointment for a limited period of service.

(c) Transfer from a position of equal rank and responsibility.

(d) Promotion from a position of lower rank or responsibility.

(e) Reinstatement to a position previously occupied, after separation.

(f) Reemployment in a position of like kind to one previously occupied.

(g) Demotion from a position of higher rank or responsibility.

(9) That the personnel legislation enacted provide for regulating the employment of persons in the service and the surrounding conditions by means of:

(a) Wide open avenues of promotion on merit to higher positions.

(b) Increases in pay as rewards for improvement in continued performance of the same duties.

(c) Fluidity of transfer as one of several means of adjusting cases of misfits and providing for seasonal and other fluctuations in the volume of work of different operating units.

(d) Facilities for training by which employes may qualify for rendering improved services and for promotion.

(e) Consistent policies as to the periods of employment involving such matters as hours of work; holidays; leaves of absence for vacations, sickness, and other purposes; and control of attendance and absence.

(f) Uniform policies and methods of procedure with regard to discipline.

(g) Other measures designed to promote the welfare and morale of employes in the service, such as those involved in attention to working quarters, health, and recreation.

(10) That the personnel legislation enacted provide for regulating separations of employes from the service under the following categories:

(a) Removals. That dead wood of unfit employes be cleared away; and in the other direction, that unfairness and discrimination be reduced to the minimum and the value of the investment made in the processes of recruiting and training employes may be conserved.

(b) Resignations. That forced resignations in lieu of removals be reduced to the minimum, and that attention be given to the causes of resignations with a view to reduction of the losses of qualified employes by reason of grounds of dissatisfaction that could be corrected.

(c) Retirement. That adequate provision be made for employes who have passed their periods of usefulness, both on humanitarian grounds and for the benefit of the service.

(d) Demotions. That unfairness be prevented and that the value of service of employes shown to be unfitted for the work they are doing be conserved for use in less responsible or less difficult work for which they may be fitted.

(e) Layoffs. That necessary reductions of force be effected with the least possible loss of good employe material, and with the utmost fairness to the employes affected.

(11) That the legislation enacted provide formally for the preparation, application, and administration of classification and compensation plans, and for the service rating system herein suggested for adoption by executive order.

(12) That all statutory salaries, except those applying to salaries required by the constitution to be fixed by the legislature, be repealed and that the salary rates for such positions be fixed under the proposed classification and compensation plans.

(13) That the personnel legislation enacted provide for the filling of positions on a competitive basis designed to determine the relative qualifications of applicants; and that, if such competitive basis is rejected, applicants be required to pass qualifying examinations.

(14) That whatever tests of qualifications may be required be not confined to written or oral examinations, but that the best type of practical tests be used that may be applied.

(15) That the personnel legislation enacted authorize and direct the personnel agency to use all practical means of locating and causing qualified applicants to apply for state employment.

(16) That under the personnel legislation enacted, there be no blanket exclusions of any groups of officers or employes, but that such positions as it may be deemed desirable to exclude from such provisions as competitive selection or restrictions on removal be excluded only from the specific provisions that are not to be made applicable to them.

(17) That the personnel legislation enacted forbid active participation by state employes in political campaigns, beyond the right to vote and to express their opinions privately.

(18) That, at such time as the general state personnel agency suggested herein is prepared to render service of a caliber acceptable to the federal authorities involved, the merit system council be abolished and its functions transferred to the central state agency.

(19) That consideration be given to the possibility of establishing a sound retirement system for state employes.

STATE OF MONTANA

GOVERNOR'S COMMITTEE ON REORGANIZATION

AND ECONOMY

THE STATE'S INSURANCE

(Report No. 34)

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Prepared by

Griffenhagen & Associates

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REPORT ON

THE STATE'S INSURANCE

Introduction:

One of the largest lines of fire insurance in Montana is that carried on the properties of the state government. The state schedules for fire insurance and extended coverage on buildings and their contents in October 1941 amounted to $14,342,229. The three-year term premium on this schedule, adjusted for endorsements, was $89,735.48. In addition to insurance on fire and extended coverage losses, the state carries earthquake insurance, automobile insurance (fire, theft, public liability, and property damage), boiler insurance, burglary insurance, and rental income insurance on various properties. Surety bonds are required by law for certain state officers and employes and are purchased by the state for many other employes. Industrial accident insurance carried by the state on its employes is an important part of the state's insurance problem, but, since this type of insurance is discussed in a separate report of this series on the industrial accident board, it is not included in this report.

The state's insurance problem hinges upon three important questions, which may be stated as follows:

(1) What insurable risks does the state have?

(2) What values do these insurable risks have?

(3) What is the most economical way to insure these risks?

This report discusses these three questions. As a background to the problem, the state's experience with fire insurance and the legal provisions relating to fire insurance are outlined. Because fire insurance constitutes the most important type, it is accorded separate treatment. Other types of insurance are given only such consideration as their relative importance warrants.

State Insurance Commission:

The state board of examiners has extensive authority with reference to insurance, but in 1939 a separate agency was created by statute to deal with fire and casualty matters. This agency, known as the state insurance commission, has as its members the state auditor, as chairman, the state accountant, and the chairman of the state board of equalization, all serving ex officio.

The commission has the following powers and duties:

(1) To examine and approve all fire and casualty insurance contracts entered into between the state and private insurance carriers.

(2) To make a study of the insurance needs of the state.

(3) To make recommendations to all state agencies as to the elements of physical hazards existing in all state property under the jurisdiction of the various state agencies, the elimination of which hazards would tend to reduce fire and casualty hazards.

(4) To do all things necessary toward securing just, fair, and equitable insurance coverage on all risks owned or insured by the state.

Since the commission has not been furnished with funds for operation, its functions have been limited to the examination and approval of insurance policies.

Recent History of State Fire Insurance Protection:

Basis for State Insurance Prior to 1935: Prior to 1935, the state board of examiners followed the policy of insuring the state's fire risks with several companies. This practice was designed to spread the commissions among various insurance agents in the state. The division of the business among the various companies was determined at one time on the basis of premium taxes paid and, at another time, on the basis of whatever companies were represented by the particular agents to whom the business was awarded.

State Insurance Fund: In 1935, a state insurance law was passed, the intent of which was to enable the state eventually to carry its own insurance. The plan also was intended to cover the fire risks of local government units. The law was poorly drawn, however, and the plan was practically doomed before it went into operation. In the first place, the responsibility for its administration was divided. Secondly, it provided for a fund to be built up to $1,000,000, while at the same time allowing for the reinsurance of all risks carried by the fund. All risks carried by the fund were reinsured by the state board of examiners in a contract with a single company. The cost of this reinsurance plus the charges to build up the fund made the costs so high to the various units of local government that the plan soon became extremely unpopular. The supreme court declared the provisions relating to cities and towns to be unconstitutional, and by a referendum, effective December 2, 1936, the people of the state repealed the remaining parts of the act. After returning unearned premiums to the local governments participating in the plan, the state insurance fund had a balance of $7,465.56 on June 30, 1940. Except for liabilities for unearned premiums in the amount of some $300, the balance of this fund is available for transfer to the general fund. This transfer should be authorized by the legislative assembly, and the fund should be closed as soon as possible.

Recent Fire Insurance Practices: After the repeal of the state insurance law, the state board of examiners cancelled the re-insurance contract and accepted a policy covering only state property for a three-year term in the same company. It is a generally accepted practice of the insurance business that when a policy is cancelled and another policy written in the same company, the unearned premium on the first contract will be figured on a pro rata basis rather than on the basis of a short-term rate. The state board of examiners, however, accepted a return of unearned premium figured on a short-term rate basis. The difference between the short-term basis and the pro rata basis was approximately $40,000. The new policy was to expire on December 2, 1939, but on May 25, 1939, it was cancelled and another three-year term contract was accepted in the same company. This contract called for a rate of 75 cents a $100 for the three years, a reduction of three cents per $100 from the previous rate, and was supposedly written before the expiration date of the existing policy to avoid possible rate increases as a result of the company's intention to join a national rate making bureau. This time the unearned premium was figured on a pro rata basis.

A 1939 statute had meanwhile created the state insurance commission. Considerable difference of opinion existed among the members of the commission as to the contract let on May 25, 1939, but a majority of the members of the commission voted to approve the contract. This contract is in effect at the present time and expires May 25, 1942.

As a result of certain irregularities within the company, that have come to light in connection with the insurance it has written for the state, the state auditor, as commissioner of insurance ex officio, has set a date for a hearing at which the company will be required to show cause why its license to do business in Montana should not be revoked. At the time of this writing, the matter is pending in the district court on a technicality, and extended litigation may result.

Fire Losses: No record exists of the fire losses experienced by the state during the past ten years. Informal records maintained by the clerk of the state board of examiners show losses of only $3,140.78 since May 25, 1939. It is apparent that the loss ratio over the last decade has been extremely low. No major fires have occurred, and most of the minor fires have resulted in partial losses only.

Legal Provisions Relating to Fire Insurance Protection:

Under its general powers to approve and to let contracts, the state board of examiners has authority to contract for insurance on behalf of the state. Since 1939, such contracts also are required to have the approval of the state insurance commission. Policies on properties controlled by two state agencies, the state liquor control board and the department of public welfare, are not purchased by the state board of examiners and apparently are not

approved by that board, except as approval of the claims for premium payments can be interpreted as approval of the policies. There seems to be no legal basis for exempting these agencies from the general authority of the state board of examiners. The policies purchased by these two agencies are approved by the state insurance commission.

Adequacy of Fire Insurance Protection:

If the amount of insurance carried is inadequate, the state may suffer unwarranted losses; if the amount carried is more than adequate, the cost of the excess insurance is a direct loss to the state. Since fire losses are paid by insurance companies on the actual cash value of the property at the time of the fire, and since the burden of establishing the amount of the losses is placed on the insured, it is important for the state to be able to determine insurable valuations of its properties at any given time.

No adequate records of the cost values of the various properties of the state have been maintained. The state accountant has kept some cost records on buildings constructed since 1926. He also compiles valuations as reported to him by the various state agencies, and these are published in the biennial budget. The 1940 compilation showed property values, exclusive of operating supplies, in the amount of $20,110,087. Whether or not the various state agencies arrived at their valuations by a uniform method is not known, but the probabilities are strong that no uniform method of valuation was used. Furthermore, no detailed figures are available from which a determination of insurable values might be made.

Because of the inadequacy of data as a basis for determining how much insurance the state should carry, the state board of examiners arranged with the insurance company in which the state's policy is written to have an appraisal made of the state's properties. This appraisal was made and the expense was borne by the insurance company. The results of the work have been carried into effect by endorsing the insurance policy to make the appraisal values effective. On this basis, and as a result of new construction, the state schedule has been increased from $10,081,345 in May 1939 to $14,342,229 in October 1941.

It is reasonable to assume that the insurance company would use these appraised values in adjusting any losses under the policy, subject, of course, to differences resulting from the fact that the appraisal was made on one date and that the loss occurred on another date. The detailed figures on which the values were based have not been submitted to the state and there is no opportunity for the state to determine whether or not such values are reasonable. The state should secure the detail of these estimates, if possible, and, if the figures are reasonable determinations of actual cash values, they should be kept up-to-date by the state. The state may not always carry its insurance in the same company, and there is no reason for assuming that this appraisal would be acceptable to another company as a basis for adjusting losses in the

absence of supporting detail for the estimates. It need hardly be added that the central financial authority of the state should have adequate cost records of the state's properties.

The insurance carried, as of October 1941, on the various state properties, exclusive of those properties controlled by the state liquor control board and the state department of public welfare, is shown in the following tabulation:

Designation of Property	Amount of Insurance		
	Buildings	Contents	Total
State capitol group	$1,410,350	$535,000	$1,945,350
Fair grounds group	73,155	2,960	76,115
State armory group	33,530	25,000	58,530
Vocational school for girls	176,730	19,915	196,645
Tuberculosis sanitarium	400,885	59,980	460,865
State prison	471,615	134,280	605,895
State orphans' home	348,845	59,165	408,010
State hospital	1,448,280	157,210	1,605,490
Training school	611,305	95,560	706,865
School for deaf and blind	156,910	50,000	206,910
Industrial school	293,440	66,985	360,425
Soldiers' home	101,715	30,555	132,270
State university	2,147,939	553,405	2,701,344
School of mines	608,510	261,000	869,510
State college	1,431,200	507,450	1,938,650
State normal college	459,925	102,685	562,610
Eastern normal school	208,945	50,000	258,945
Northern college	177,400	82,000	259,400
Horticulture station	6,275	850	7,125
Judith Basin sub station	14,460	4,855	19,315
Sub station, Assinniboine	47,420	3,325	50,745
Fort Ellis sub station	13,400	2,700	16,100
State land department properties	11,790	-	11,790
Fish and game commission properties	145,390	3,285	148,675
State highway commission properties	535,700	164,500	700,200
State park commission properties	9,450	-	9,450
Water conservation board properties	-	25,000	25,000
Total schedule	$11,344,564	$2,997,665	$14,342,229

The amounts in the foregoing schedule represent, for the most part, 90 percent of the appraised, insurable value of the properties, since the policy contains a 90 percent coinsurance clause. A small number of the educational properties (those financed through loans made by the Reconstruction Finance Corporation) are insured under an 80 percent coinsurance clause. The existence of a coinsurance clause in a policy makes it doubly important that the state

know the actual cash values of its properties, since it stands to lose substantial amounts, even in the case of partial losses, if the property is not insured for as much as the specified percentage of actual cash value at the time of the loss.

Methods of Reducing the Cost of Fire Insurance on State Property:

Fire Prevention and the Removal of Fire Hazards: In the long run, any fire prevention activities carried on by the state should result in lower fire insurance costs. In this connection, it should be pointed out that the appropriations for the office of state fire marshal do not allow the annual inspection of all state properties as contemplated by law. While it is important, the loss of property is a secondary consideration in fire prevention as applied to prisons, hospitals, schools, and similar state institutions. Prevention of possible loss of life is the primary aim of fire prevention in such institutions, and those responsible for conducting the institutions should never neglect or overlook this objective.

A more specific possibility of reducing the cost of fire insurance to the state lies in the removal of direct fire hazards. Fire insurance rates are generally applied to specific properties in accordance with two main factors as follows:

(1) A basic rate, figured on location, local fire protection facilities, the experience of fire insurance companies in the locality, and other factors.

(2) Penalties added to the basic rate for specific fire hazards and credits subtracted from the basic rate for specific fire protective devices.

Generally speaking, the penalties usually outweigh the credits so that the rate is composed of a basic figure plus penalties for direct fire hazards. Where the rating schedule for a particular building is available, direct fire hazards can be eliminated and the penalties thus reduced. Many units of government have found it possible to eliminate specific hazards and have, thereby, secured reductions in insurance rates in amounts that compensate many times over for the costs of eliminating the hazards. For example, the installation of sprinkler systems have paid for themselves in many instances in five or six years as a result of the lowered costs of insurance. The state should secure the rating schedule for each of its properties and proceed to eliminate those direct fire hazards which can be compensated for by reductions in the fire insurance rate.

Some mention should be made of the possibilities of reducing insurance costs when new buildings are constructed. All too often these possibilities are overlooked. Many architects know little about the insurance rate structure that determines the cost of fire insurance, and take little account of such matters as insurance cost in the design of a building. It is, therefore, incumbent upon those responsible for the construction of buildings to

see to it that the plans are so drawn as to result in the least possible fire hazard. Many insurance companies and the board of fire underwriters have professional services available without cost to the insured which, if taken advantage of, will assure the lowest possible insurance costs on new structures. The state should take advantage of this specialized type of service in the construction of all new buildings.

Competitive Bidding: In many states, fire insurance rates are set by central rate-making bureaus to which all the companies carrying on business in the particular states belong. In such states, nothing is to be gained by calling for competitive bids before letting the insurance contracts. In Montana, however, the central rate-making bureau for the state does not exercise any such control over fire insurance rates. Several companies (so-called non-board companies) are not affiliated with the rate-making bureau. In order to meet competition, the central rate-making bureau for the state has found it necessary to grant special dispensation to its members in specific instances to write insurance at lower than the promulgated rates.

This situation makes it necessary for the state to "shop" for insurance as it would for ordinary purchases if the best price is to be obtained. For example, competitive bids called for by the state liquor control board in 1941 for fire insurance on certain of its properties resulted in three bids of $1.38 per $100 for a three-year term and one bid of $1.04 per $100. As long as fire insurance continues to be a highly competitive business in the state, it would appear that the state can receive the lowest possible rate by securing competitive bids.

State Insurance: Another possible means of reducing the state's insurance costs is for the state to carry its own insurance. More than half the states now carry their own risks by one method or another. State insurance may involve building up a special fund from which losses are paid, or it may be accomplished without building up a fund. The state may carry all of its risks, or it may carry only a part of them and insure the remaining risks in private carriers. Notwithstanding the fact that an ill-conceived plan of state insurance was tried in this state and failed, the state might save substantial sums by carrying its own risks in accordance with a practical plan of state insurance. Several such plans suggest themselves.

The state might carry its own risks without building up a special fund from which losses could be paid. This would involve legislative appropriations for the replacement of losses. In order that such replacements could be made without delay, the legislative assembly might provide a biennial appropriation of $200,000 from which losses could be replaced upon the approval of the central financial authority of the state. Any part of the appropriation remaining at the end of the year would lapse. This plan would provide adequately for replacement of small losses and would allow partial replacement of large losses which could be completed upon the authorization of the next legislative assembly. The amount appropriated would be sufficient to start the work of replacement

and to carry it as near to the point of completion before the next legislative session as would be possible if an appropriation were available to cover the entire cost of replacement If the appropriation were also made available for the payment of rent on temporary quarters, the state would have provided insurance against a contingency which is not covered at the present time under its policies with private carriers.

Under another plan, a bond issue might be authorized, for whatever amount might be deemed necessary, to be issued only if the state suffered losses within one fiscal year from fire, or other causes, in excess of some specified amount - say $20,000. An appropriation of $25,000 a year could then be made to care for any except major losses, and for the initial expense on replacement of major losses. Any unused portion of this appropriation might lapse at the end of the year, or it could be used to build up a reserve fund to pay for future losses. This plan should also provide authorization for the issuance of short-term notes in anticipation of receipts from the sale of bonds. The responsibility for reviewing the necessity for replacing the loss should be placed in the central fiscal agency of the state government.

Those responsible for devising such a plan in detail and the legislative assembly as well should be fully cognizant of the risks entailed under such a plan during the first few years of operation. The destruction of a large building, for example, during the first few years of operation under the plan would be disheartening. It should be remembered, however, that the state has experienced a very small loss ratio over a long period of years, and even a large loss in the first few years of operation under a state insurance plan would not wipe out the possibilities of savings over a long period of years.

Both of the above plans contemplate that the state carry all of its risks. Still another plan might be worked out under which the state would carry only a part of its risks and insure the remaining risks in private companies. This might be accomplished by a policy with a deductible clause similar to that found in many automobile collision insurance policies. For example, the state might assume all losses in a year up to $25,000 and insure its properties in a contract containing a $25,000 deductible clause. It would then be necessary for the legislative assembly to appropriate $25,000 annually with the provision that any unused portion of the appropriation should lapse at the end of the year. No fire insurance company operating in the state now writes such a policy, but, since the state has such a large line of insurance, it should be able to procure a contract with features similar to those outlined. The savings to the state, measured against the present cost of insurance, should be substantial.

The State's Insurance Other Than Fire Insurance:

General Statement: The state has many other risks in addition to its fire risk. Some of these it insures in private carriers, and others it carries without private insurance. Those

risks for which more or less complete coverage is carried in private companies are "extended coverage" as a part of the fire insurance policy (windstorm, cyclone, tornado and hail, explosion, riot, riot attending a strike, aircraft damage, vehicle damage, smoke, and waiver of the fallen building clause); automobile losses (fire, theft, public liability, and property damage); and boiler explosion losses. Fidelity bonds on officers and employes of the state also fall within this category. Partial insurance is carried on losses by burglary, on losses by earthquake, and on the loss of rental income. The state carries its own risks against losses from automobile collision, losses from the theft of all motor vehicles except passenger cars and motorcycles, and losses from several other sources wherein the risk is too slight to warrant any insurance.

Extended Coverage and Earthquake Insurance: The extended coverage insurance contained in the fire insurance policies held by the state applies to risks which are very slight. These risks could very well be assumed by the state under any plan of state insurance for fire losses. Earthquake insurance is carried only on a small number of buildings which have been financed by loans from the Reconstruction Finance Corporation. The total coverage amounted to $1,024,640 in October 1941, and the premium cost for a three-year term was $2,937.71. The rate per $100 for a three-year term is fifty cents. When the bonds on these buildings are retired, the state will probably carry its own earthquake insurance on them.

Boiler Insurance: The present policy on boiler insurance covers 82 boilers and is limited to a coverage of $50,000 on each accident. The contract has been let for a three-year term and expires on March 1, 1944. The premium for this policy was $2,552.92. Losses as a result of boiler explosions or accidents have been nominal over a long period of years and the risk is widely scattered. The state could very well afford to carry its own insurance on boilers. An annual, lapsing appropriation for this purpose should be practicable.

Automobile Insurance: The state carries fleet coverage insurance on its motor vehicles for fire, theft, public liability, and property damage. A minor exception in this coverage is that theft insurance is carried only on passenger cars and motorcycles. All this insurance is purchased on the basis of competitive bids. The premiums on the present policies at the time the contracts were drawn were as follows:

Type of Insurance	Annual Premium
Fire	$3,842.50
Theft	94.50
Public liability	10,007.53
Property damage	3,122.80
Total premiums on automobile insurance	$17,067.33

The loss ratio on this type of insurance is not known, but there is some indication that it is substantially higher than that of fire losses on state building. The central fiscal agency of the state should keep adequate records of losses under these contracts, and it could then be determined whether the loss ratio experience would justify the assumption of these risks by the state.

Fidelity Bonds: The state purchases surety bonds for certain of its officers and employes as required by law and for certain others of its employes as an added protective measure. The cost of these bonds was $5,925.89 in 1938-1939 and $4,573.65 in 1939-1940. The rates paid for this type of bond are, for the most part, five dollars a thousand. There might be some possibility of reducing the rates by negotiation with the surety companies or by calling for competitive bids. Bonds are required of various state officers, board members, and employes where their necessity is not apparent. As a general rule, it is only necessary to bond those persons who have the responsibility for handling money or negotiable instruments or who have authority to obligate the state in substantial amounts. Surety bonds for faithful performance are difficult to collect on, where money losses cannot be shown.

Other Types of Insurance: The University of Montana carries several types of burglary insurance. These include office burglary, safe robbery, messenger robbery, and ticket office burglary. The premium cost is slight and the coverage is apparently adequate. The state treasurer carries no burglary or safe robbery insurance and probably needs none. There is some question as to whether or not it would be good business for the treasurer to provide messenger robbery insurance to protect his daily deposits in local banks. The cost of such protection is very little and the risk is more intensive than are many other risks on state properties for which insurance is carried. The state also carries $8,500 insurance on a dormitory at Northern Montana College to protect against the loss of rental income in case the building is rendered uninhabitable. This policy is required by the revenue bond indenture covering the building.

Summary of Recommendations:

The recommendations expressed or implied in this report may be summarized as follows:

Recommendations Not Requiring Legislation:

(1) That, if the state continues to insure in private carriers, the board of examiners take the responsibility for entering into insurance contracts for all agencies.

(2) That the central fiscal agency of the state maintain adequate cost records on state properties and adequate records of insurable losses of state properties.

(3) That the central fiscal agency obtain the detailed estimates making up the present appraisal of the insurable value of state properties and that these estimates be kept up-to-date.

(4) That, as a means of reducing insurance costs, the state enter into an extensive campaign to reduce direct fire hazards.

(5) That, as a means of reducing insurance costs on new construction, the state take advantage of professional services in building design offered by fire insurance companies.

(6) That, if the state continues to insure in private carriers, insurance contracts be let on the basis of competitive bids.

(7) That the state treasurer carry messenger insurance in a private carrier to protect the daily deposits being made in local banks.

Recommendations Requiring Legislation:

(8) That the unencumbered balance in the state insurance fund be transferred to the general fund.

(9) That the state adopt a sound plan for carrying all or part of its own fire risks, and all of its own boiler insurance.

STATE OF MONTANA

GOVERNOR'S COMMITTEE ON REORGANIZATION

AND ECONOMY

TRANSPORTATION OF EMPLOYES;

AND OTHER TRAVELING EXPENSES

(Report No. 26)

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Prepared by

Griffenhagen & Associates

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REPORT ON

TRANSPORTATION OF EMPLOYES;

AND OTHER TRAVELING EXPENSES

Introduction:

The state of Montana spent some $333,000 for the traveling expense of its officers and employes during the fiscal year ended June 30, 1940. This figure amounted to about one percent of the total state expenditures during that year. Only a few state departments had expenditures in excess of this amount. From the fiscal standpoint, therefore, the control of traveling expenses is important, but it is important also quite apart from its fiscal aspects since many state agencies render important services which are dependent upon effective field work. The efficiency and economy with which the field services are performed are closely associated with effectiveness of the control over traveling expenses.

Statutes and Rules Governing Travel:

For those state employes traveling in privately-owned automobiles, the statutes limit the allowance to a maximum of five cents a mile for the use of such automobiles. Private automobiles may not be used if suitable rail transportation is available. The state board of examiners has adopted a rule which allows the optional use of a private car in any case where the route parallels that of a railroad, but provides that the compensation may not exceed the amount of the railroad fare. This rule is enforced except where it is shown that the route traveled by car reaches stopping points which could not be conveniently reached by train; that a car is necessary at the terminal point; or that the time saved by car travel will more than compensate for the difference in the cost of transportation. A few of the state agencies have adopted the practice of restricting the private car allowance to three cents a mile if the route parallels that of a railroad or bus line, regardless of any convenience factor which might accrue from the use of a private car.

Some of the agencies which are provided with state-owned cars restrict the allowance for the use of a private car to the cost of fuel. The fish and game commission pays certain of its employes twenty dollars a month to cover depreciation on privately-owned automobiles, in addition to payments covering all operating expenses. The depreciation payment is made only during the first fourteen months after the purchase of a new car, but the payments during thi.

period are approximately large enough to allow the purchase of a new car. The most general practice among the several state agencies is to allow five cents a mile for the use of a private car.

All state-owned automobiles, except those used by the state highway commission and the state highway patrol, are under the control of the state board of examiners as the custodian of state-owned motor vehicles, ex officio. This board is given extensive powers in the control of traveling expenses, including the authority to issue reasonable rules and regulations. It may, for example, exercise the following means of controlling traveling expenses:

Approve all claims for traveling expenses.

Determine the extent of duplication of travel and order its elimination.

Assign state-owned motor vehicles to the various agencies, except for the state highway commission and the state highway patrol.

Require the administrator of each state agency to formulate and enforce travel regulations providing for travel authorizations and trip reports, except in the case of the state highway commission and the state highway patrol.

Require each state agency to maintain automobile operating history records showing the cost of operation, except in the case of the state highway commission and the state highway patrol.

Through a quirk in the wording of the statute governing subsistence expenses, it appears that travel by such conveyances as airplane, boat, and horse and buggy is prohibited. This act provides that "expenses other than railroad fare, bus fare, or automobile hire shall be limited to not more than four dollars ($4.00) per day." However, this has been interpreted to exclude all transportation expenses from the four dollar limit, and other modes of travel are used occasionally.

As mentioned in the preceding paragraph, subsistence expenses are limited to four dollars a day. In the cases of elected officials, their deputies, or their assistants specifically provided by law, however, the limit is eight dollars a day when engaged in travel outside the state. The allowance to any employe of the state is further limited to the "actual and necessary" expenses incurred. As is to be expected, some of the employes claim subsistence somewhat less than the maximum allowance, while many others regularly claim the maximum amount as the actual amount. The extent of either practice is not known.

Transportation Expenses:

It is an established fact that, under the same operating conditions, the cost per mile for automobile transportation decreases as the number of miles traveled during a given period increases. Where extensive daily use is made of an automobile on state business, the cost per mile should be less than the present maximum allowance of five cents a mile. Under such circumstances the state should not be called upon to pay more than the cost. The two alternatives in avoiding excess charges under these conditions are to use state-owned automobiles or to use a sliding scale for reimbursement of private owners.

The choice between these two alternatives must necessarily be influenced by the degree of control which is feasible over both private and state automobiles. If the same degree of care is exercised in the maintenance and operation of privately-owned and state-owned automobiles, and if satisfactory controls can be established to insure that the state will not pay for private transportation under either circumstance, it may be regarded as preferable to furnish state automobiles wherever the use is heavy.

Even with proper controls, the exact point at which it ceases to be economical for the state to pay for the use of a privately-owned automobile at five cents a mile is not known, since there are so many variable factors. In the state of Kansas, which reimburses employes for the use of private automobiles at the rate of five cents a mile, the law requires the purchase of state automobiles for those employes traveling over 18,000 miles a year and allows department heads to purchase state automobiles for those employes traveling over 12,000 miles a year. It is probable that the use of a state-owned automobile under proper control is economical for an employe traveling over 10,000 miles a year, although any exact determination is dependent on the particular circumstances involved.

On June 1, 1941, the state owned 184 passenger automobiles. In addition to these conveyances, 104 light trucks and station wagons were available to contribute, in part, to the transportation of several employes. A few state-owned cars are not driven extensively but even these appear to be necessary because of special circumstances making the use of private cars impracticable. According to information reported by the various state employes, there are at least 75 individuals who regularly travel over 10,000 miles a year in their private cars. Additional investigation should be made to determine whether or not the state should purchase cars for the use of many of these employes.

In addition, there are scores of employes who travel less than 10,000 miles a year in private cars. While it would not be economical to purchase a car for the individual use of each of these employes, the possibility of establishing a pool of state-owned cars should not be overlooked. At least two states have adopted such an arrangement, and two agencies of this state (other than the state highway commission and the state highway patrol) have provided car pools for their own employes.

If properly administered, this arrangement would not necessarily require the use of large central storage facilities. The problem would be one of assigning, dispatching, and servicing. Since the state highway commission maintains a central automobile shop in Helena, it might be possible to assign the responsibility for administering a central fleet of cars for all state agencies to the state highway commission. The problem of dividing expenses could be met by charging rental for the use of cars from the pool. If such a system were devised, it would be necessary, of course, to prohibit the use of private cars unless no state car were available. Detailed investigation, which is not possible within the scope of the study on which this report is based, should be made to determine the possible economies from the establishment of a central pool of state-owned cars.

Several states fix the allowance for the use of private cars at less than five cents a mile. At least eight states allow a maximum reimbursement of four cents a mile, and at least two others fix the maximum at 4.5 cents. Without extensive use of state-owned cars, these rates may result in some inequities among those employes who travel extensively and those who do not. As a means of preventing such inequities, a few governmental jurisdictions use "stepped" rates of reimbursement which provide higher rates for those employes driving small distances and lower rates for those driving extensively. If state automobiles are not provided for those employes traveling over 10,000 miles a year, an administrative ruling fixing the maximum rate of reimbursement at a somewhat lower figure than five cents a mile for such travel would appear to be in order.

On the other hand the rate of five cents a mile may be below the cost in the cases of many employes who are forced to drive their own automobiles nearly every day for short distances in areas where improved roads are not available. Some of these employes have to purchase automobiles for their work and use them most of the time and yet they may receive as little as $150 or $200 a year in reimbursement of the expense of automobile operation. In any sliding scale that may be adopted, consideration should be given to the possibility of increasing the allowance rate for employes in positions for which it is compulsory to own and use automobiles where the mileage reimbursed is low (say less than 500 miles a month).

Subsistence Expenses:

Although many state employes claim subsistence expenses at less than the maximum allowance of four dollars a day, it is doubtful whether the state saves much money by requiring that only "necessary and actual" expenses be paid. In the first place, many employes claim the maximum allowance regularly and support their claims by "actual" detailed figures. Some of these, no doubt, actually incur expenses exceeding four dollars a day, and other probably actually spend less than the maximum. Secondly, the amount "saved" by those employes who claim less than four dollars a day is probably offset by increased costs to the state in the detailed

auditing required and the time consumed in the preparation of detailed claims. This detailed work could be avoided if it were unnecessary to try to check the "actual and necessary" expenses.

A plan might be adopted whereby the state could avoid the detailed work of checking subsistence claims and still take advantage of the fact that the subsistence payments to many employes need not reach four dollars a day. Such a plan would allow the central financial authority of the state to fix allowances at less than the four dollar a day maximum according to either or both of two factors

(1) The nature of the duties performed by the various employes (In certain positions it is more necessary to "keep up appearances" than in others).

(2) The prevailing price levels in the areas in which the traveling is done.

Under such flat rate reimbursements, no claims should be allowed for subsistence if the employe leaves his official station and returns on the same day. The adoption of this suggestion would require legislation to allow the substitution of flat rate subsistence payments for payments of "actual and necessary" expenses.

The restrictions now placed on travel out of the state are generally sound in principle, but in certain instances the proper conduct of state activities is being thwarted by the low limit placed on subsistence expenses. It is suggested that the present limit be retained on subsistence expenses when the travel out of the state is for the purpose of attending a convention or other general meeting, but that it be removed and subsistence paid on the basis of actual expense when the travel is for the purpose of transacting state business. In each such case a daily limit should be fixed by the travel authorization.

Proposed System for More Effective Control Over Travel Expenses:

Travel Authorization: The state spends considerable time and effort in checking claims for traveling expenses after the traveling has been done. Relatively speaking, it is neglecting to spend time and effort at the point where the results would be the most fruitful - prior authorization for travel. While a few state agencies require a formal travel authorization as a prerequisite of any trip, most of the travel for the state is done with only informal or verbal authorization or with no authorization at all. It appears to be mandatory for the state board of examiners to require the administrators of the various state agencies to provide and enforce regulations covering travel authorizations. This should be done by the use of standard forms, and the authorization should be subject to the approval of the central financial authority of the state. The forms might well provide for monthly authorizations for those employes engaged in extensive travel and for single trip authorizations for those employes traveling sporadically. The state board of examiners now requires such prior authorization for any

travel out of the state. There is no reason why this control device could not be extended to include prior authorization for all travel. It need hardly be mentioned that the prior authorization of travel should be subject to the limitations imposed by appropriations and allotments.

The use of travel authorizations is closely related to the effective administration of field services. The mere fact that an administrator must give his formal approval to a travel authorization almost requires him to do some planning of the field work. There can be no question but that effective control over travel expenses will result in more effective and more efficient field services.

Audit of Claims for Travel Expenses: Any plan for effective control of travel expenses must of necessity include adequate pre-audit of the payments as well as adequate provision for post auditing. The state board of examiners does direct a pre-audit of travel expense claims which is effective as far as its scope is concerned. It is possible that the state may be paying claims, however, for the travel of employes whose official stations are poorly located or not designated at all. An official station should be designated for each employe who is to travel for the state, and a copy of this designation should be filed with the central financial authority of the state. If an employe is engaged in work in one community, other than his official station, for more than thirty days consecutively, no subsistence claims should be allowed during the period in excess of thirty days.

Claims for travel expenses should be made on specialized standard forms. These should be designed to show all the necessary detail for an effective pre-audit of the payments and, at the same time, to allow their preparation in a minimum of time. Most of these claims are now filed with the state board of examiners on the regular claim voucher, supported by a booklet detailing the expenses incurred on each day. However, a special claim form is used by the department of public welfare. The claim voucher, if provided with special columns, could be prepared and audited in much less time than it now takes to prepare and audit the regular claim voucher. The supporting booklet contains exactly the same information as that appearing on the claim voucher. In fact, many employes prepare the claim voucher and the booklet at the same time. In requiring the booklet, the legislature evidently intended that it should serve as a medium for the state board of examiners to eliminate duplicate travel. It is not being so used as to be effective in accomplishing this object. As pointed out above, prior authorization for travel is much more effective in avoiding duplication than is an investigation after the traveling is done. If the law requiring the booklet were repealed, the state could save over $400 a year in printing costs without reducing in any way the control which it now exercises over travel expenses.

The state examiner is vested with the authority to post audit traveling expenses, but does little auditing of individual claims. This activity is a small part of the larger function of

post auditing all the expenditures of the state. Suggestions which are made in a report of this series on financial administration with regard to post auditing of the state's expenditures apply fully to the post auditing of travel expenses.

Cost Records: The suggestion has already been made that effective control of travel expenses involves prior authorization for travel. The expenditure accounts should also be classified so as to show the expenditures made for travel. If it proves practical for the central financial authority to keep only control accounts for such expenditures, each agency should keep "thumb nail" accounts showing whatever detail is necessary to the efficient operation of that particular agency. For all state-owned motor vehicles, cost accounts should be maintained to show the cost of operation, properly classified, for each piece of equipment over the life of the vehicle. Again, if it is impractical for the central financial agency of the state to keep these cost accounts, they should be kept by the individual agency in accordance with standard forms and accounting procedures established by the central authority.

Formal Rules and Regulations: It is impossible and undesirable for the legislature to prescribe anything other than the main outline of an effective system of control over travel expenses. The details of the problem are administrative matters. The system of control cannot be effective if it is administered by oral orders, "understood" regulations, and ill-defined rules. The central financial authority of the state should promulgate written rules and regulations governing travel and these should be revised from time to time as circumstances warrant.

Summary of Recommendations:

The recommendations expressed or implied in this report are all designed to effect savings in traveling expenses through more effective control, except as otherwise noted. These recommendations may be summarized as follows:

Recommendations Not Requiring Legislation:

(1) That further investigation be made to determine whether or not it would be profitable for the state to furnish cars for a substantial number of employes traveling over 10,000 miles a year in private cars.

(2) That consideration be given to the possibility of establishing a pool of state-owned automobiles to replace, as far as is practical, the use of private automobiles for state travel.

(3) That, as a means of saving transportation expenses and of providing more equitable reimbursements for the use of private automobiles, the rate per mile for employes traveling more than 10,000 miles a year in private automobiles be reduced to a figure somewhat lower than the present maximum rate of five cents.

(4) That formal travel authorizations subject to the prior approval of the central financial authority of the state be required as a prerequisite of travel.

(5) That an official station be formally designated for each employe who is to travel for the state and that the central financial authority of the state be notified of each such designation.

(6) That, as a means of saving time in preparing and auditing claim vouchers for traveling expenses, a specialized, standard travel expense voucher be devised to support claims for travel expenses.

(7) That adequate cost records on each state-owned motor vehicle be kept.

(8) That the central financial authority of the state promulgate a complete set of formal rules and regulations governing travel.

Recommendations Requiring Legislation:

(9) That, if a sliding scale for mileage reimbursement is adopted for employes traveling over 10,000 miles a year in private automobiles, consideration be given to increasing the allowance for those employes traveling short distances if the ownership of an automobile is a requirement of the position

(10) That, in the interests of equity, the law fixing the maximum subsistence allowance for out-of-state travel be repealed; and that provision be made for fixing the maximum allowance under each travel authorization.

(11) That, as a means of reducing auditing expenses and of providing a simpler control over subsistence expenses, the law be amended to allow reimbursement for subsistence expenses on a flat rate basis at a maximum amount for each day, subject to reductions under particular circumstances at the discretion of the central financial authority of the state.

(12) That, as a means of reducing printing costs by over $400 a year without in any way reducing the control over traveling expenses now exercised by the state, the law requiring a booklet to be submitted by each employe in support of his claim for traveling expenses be repealed.